

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Auburn Hills</u>	County Oakland
Audit Date December 31, 2005	Opinion Date May 4, 2006	Date Accountant Report Submitted To State: June 26, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48037-0307
Accountant Signature <i>Plante & Moran, PLLC</i>			

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**CITY OF AUBURN HILLS, MICHIGAN
DECEMBER 31, 2005**

PREPARED BY
Finance Department

FINANCE OFFICER
Gary L. Barnes

INDEPENDENT AUDITORS
Plante & Moran, PLLC

CONTENTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT CITY OF AUBURN HILLS December 31, 2005

		Pages
	Financial Statements	Supplementary Financial Data
I. INTRODUCTORY SECTION		
List of Principal Officials.....		7
Organization Chart.....		9
FINANCIAL SECTION		
Report of Plante & Moran, PLLC, Independent Auditors.....	13	
Management Discussion and Analysis.....	14	
Exhibit		
Basic Financial Statements		
Government-Wide Financial Statements:		
A-1 Statement of net assets.....	23	
A-2 Statement of activities.....	24	
Fund Financial Statements		
A-3 Governmental funds balance sheet.....	26	
A-4 Reconciliation of the governmental funds balance sheet to the government-wide statement of net assets.....	29	
A-5 Statement of revenue, expenditures and changes in fund balance- governmental funds.....	30	
A-6 Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities.....	33	
A-7 Statement of net assets-proprietary funds.....	34	
A-8 Statement of revenues, expenses and changes in fund net assets- proprietary funds.....	36	
A-9 Statement of cash flows-proprietary funds.....	38	
A-10 Statement of fiduciary net assets.....	40	
A-11 Statement of changes in fiduciary net assets	41	
A-12 Statement of net assets-component units.....	42	
A-13 Statement of activities-component units.....	44	
A-14 Notes to the financial statements.....	46	
Required Supplementary Information		
B-1 City of Auburn Hills Employee Pension Plan-Analysis of funding progress.....		64
B-2 City of Auburn Hills Employee Pension Plan-Schedule of employer contributions.....		65
B-3 Schedule of Revenue and Transfers In Budget and Actual -- General Fund.....		71
B-4 Schedule of Expenditures and Appropriations, Budget and Actual General Fund.....		72
B-5 Schedule of Revenues and Other Sources, Budget and Actual Other Major Funds.....		74
B-6 Schedule of Expenditures and Other Uses, Budget and Actual Other Major Funds.....		75
Note to Required Supplementary Information.....		77

<u>Exhibit</u>		<u>Pages</u>	
		<u>Financial Statements</u>	<u>Supplementary Financial Data</u>
	Other Supplemental Information		
C-1	Combining Balance Sheet- Nonmajor Governmental Funds.....		80
C-2	Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....		81
	Special Revenue Funds		
D-1	Combining Balance Sheet-Non Major Special Revenue Funds.....		86
D-2	Combining Statement of Revenue, Expenditures and Changes in Fund Balances (Deficit)-Special Revenue Funds.....		88
	Capital Project Funds		
E-1	Combining Balance Sheet.....		94
E-2	Combining Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit).....		95
	Internal Service Funds		
F-1	Combining Balance Sheet.....		100
F-2	Combining Statement of Revenues, Expenses, and Changes in Retained Earnings.....		101
F-3	Combining Statement of Cash Flows.....		103
	Fiduciary Funds		
G-1	Statement of Changes in Net Assets--Agency.....		107

I. INTRODUCTORY SECTION

The Introductory Section Contains:

A. List of Principle Officials

B. Organization Chart

PRINCIPLE OFFICIALS

CITY OF AUBURN HILLS

CITY COUNCIL

Mari Harvey-Edwards, Mayor

Robert Kittle
Henry V. Knight
Maureen E. Hammond
James D. McDonald
Otis Newkirk
Daniel L. Pillsbury

CITY MANAGER

Michael W. Culpepper

ASSISTANT CITY MANAGER

Thomas A. Tanghe

CITY CLERK..... Linda F. Shannon
CITY ASSESSOR..... Victor J. Bennett
FINANCE OFFICER..... Gary L. Barnes
CITY TREASURER..... Victoria L. Valko
DIRECTOR OF SENIORS SERVICES..... Karen Adcock
DIRECTOR OF GOLF..... Gordon Marmion

COMMUNITY DEVELOPMENT DIRECTOR..... Brian McBroom
RECREATION DIRECTOR..... Brian Marzolf
FIRE CHIEF..... Mark K. Walterhouse
POLICE CHIEF..... Doreen E. Olko
DIRECTOR OF PUBLIC WORKS..... Ronald Melchert
CITY ATTORNEY..... William P. Hampton
Derk W. Beckerleg

CITIZENS

CITY COUNCIL

CITY ATTORNEY

CITY MANAGER

ASSISTANT CITY MANAGER

HUMAN RESOURCES

COMMITTEES, COMMISSIONS & BOARDS

ELECTED OFFICIALS

APPOINTED BY CITY COUNCIL

DEPARTMENT HEAD APPOINTED BY CITY COUNCIL AND REPORTING TO CITY MANAGER

DEPT. OF PUBLIC WORKS

FINANCE DEPARTMENT

ACCOUNTING

PAYROLL

ACCOUNTS PAYABLE

PENSION ADMINISTRATION

WATER

SEWER

ROADS

FACILITIES

GROUNDS

DRAINS

STREET LIGHTS

SENIOR SERVICES

COMMUNITY DEVELOPMENT

BUILDING INSPECTION

CODE ENFORCEMENT

PLANNING

ECONOMIC DEVELOPMENT

RECREATION DEPARTMENT

CITY CLERK'S OFFICE

ELECTIONS

RECORDS RETENTION

ASSESSING OFFICE

POLICE DEPARTMENT

OPERATIONS

TECHNICAL SERVICES

INVESTIGATIONS

TREASURERS' OFFICE

RECEPTION

ACCOUNTS RECEIVABLE

FIRE DEPARTMENT

PREVENTION

OPERATIONS

FIELDSTONE GOLF CLUB

Elected Officials

Appointed by City Council

Department Head Appointed by City Council and Reporting to City Manager

Dept. Head appointed by City Mgr. with City Council Confirmation

Consultant Services

II. FINANCIAL SECTION

The Financial Section Contains:

- A. Auditor's Report**
- B. Management's Discussion and Analysis**
- C. Basic Financial Statements**
- D. Notes to Financial Statements**
- E. Required Supplementary Information**
- F. Other Supplementary Information**



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council
City of Auburn Hills, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Auburn Hills, as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Auburn Hills' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Auburn Hills as of December 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, pension system schedules of funding progress and employer contributions, and the budgetary comparison schedules as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Auburn Hills' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

May 4, 2006

Plante & Moran, PLLC

A member of



A worldwide association of independent accounting firms

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF AUBURN HILLS

As the management of the City of Auburn Hills, we offer readers of the Comprehensive Annual Financial Report this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2005. We encourage readers to consider the following information in conjunction with the information presented in the City's financial statements.

FINANCIAL HIGHLIGHTS

The assets of the City of Auburn Hills exceeded its liabilities at the close of the most recent fiscal year by \$178,472,255 (net assets). Of this amount, \$120,883,304 is the investment in capital assets (net of related debt), \$22,091,462 are assets restricted for specific purposes and functions, while the remaining \$35,497,489 represents unrestricted net assets which may be used to meet the demand for resources for the ongoing functions of the City.

The City's total net assets increased during 2005 by \$6,322,439. The net increase is attributable to the use of current resources to liquidate long-term liabilities of the City and the results of on-going operations. By using current resources or revenue to reduce liabilities on the balance sheet rather than expensing these costs the net assets increase. The increase in the net assets of the governmental activities was \$5,378,207 while the business-type activities realized an increase in total net assets of \$944,232.

At December 31, 2005, the City of Auburn Hills' governmental funds reported combined fund balances of \$26,189,478, an increase of \$4,874,790 from the December 31, 2004 balance of \$21,314,688. The increase was attributable to a planned increase in General Fund's fund balance combined with excess revenues over expenditures in many of the other governmental funds.

At December 31, 2005, the unreserved fund balance for the General Fund was \$4,284,332 or 36.3% of total General Fund 2005 expenditures and transfers.

The total long-term debt of the City of Auburn Hills at December 31, 2005 was \$21,390,953 which represents a decrease of \$1,740,996 from the prior year balance of \$23,131,949. The reduction was attributable to principle payments made on long-term debt in 2005 in the amount of \$1,662,502 combined with a decrease in Tax Tribunal Cases in the amount of \$78,495. The decrease in Tax Tribunal Cases was due to fewer new appeals and favorable settlements on existing appeals. There were no new debt issuances by the City during 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Auburn Hills' basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decrease in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during 2005. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal period (e.g., multi-year special assessments and other receivables not collected within sixty days of the end of the fiscal year).

Both of the government-wide financial statements distinguish functions of the City of Auburn Hills that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Auburn Hills include legislative, management and planning, public safety, streets, highways & public improvements, community and economic development, and general support. The business-type activities of the City include the water and sewer departments and Fieldstone Golf Club, a municipal golf course.

The government-wide financial statements include, not only the City itself (known as the primary government), but also includes five legally separate component units for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found as Exhibits A-1 and A-2 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City of Auburn Hills, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and to comply with State and GASB (Government Accounting Standards Board) requirements for governmental accounting. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of available resources, as well as on balances of available resource available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term ability to meet financial commitments.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Auburn Hills maintains individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, four special revenue funds, and one debt service fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation entitled "Other Non-Major". Individual fund data for each of these non-major governmental funds is provided in the form of combining fund financial statements in this report.

The City of Auburn Hills adopts an annual appropriated budget for all governmental funds. A budgetary comparison statement has been provided for the major governmental funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found as Exhibit A-3 and Exhibit A-5 of this report.

Proprietary Funds. The City of Auburn Hills utilizes two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the Water Department, Sewer Department and Fieldstone Golf Club municipal golf course. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City utilizes internal service funds to account for its fleet of vehicles and equipment and for the accounting of the liability for unused, earned accrued sick and vacation hours. These functions have been allocated to governmental activities and business-type activities in the same proportion as the amount of services these functions provide to the activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer and Fieldstone Golf Club. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements beginning with Exhibit F-1.

The basic proprietary fund financial statements can be found as Exhibits A-7, A-8, and A-9 of this report.

Fiduciary Fund. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of this fund are not available to support the City of Auburn Hills' programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's fiduciary funds are the agency fund and the pension fund.

The fiduciary fund financial statements can be found as Exhibit A-10 and Exhibit A-11 of this report.

Component Units Presentation. The government-wide financial statements include not only the financial information for the City of Auburn Hills (the primary government), but also five legally separate component units for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government.

The basic component unit financial statements can be found as Exhibit A-12 and Exhibit A-13 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF AUBURN HILLS

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found as Exhibit A-14 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Auburn Hill's progress in funding its obligation to provide pension benefits to its employees. In addition, budgetary comparison schedules are provided for all major governmental funds. This information can be found on Exhibit B-3, Exhibit B-4, Exhibit B-5 and Exhibit B-6 of this report.

Government-Wide Financial Analysis

As stated above, net assets over time may serve as a useful indicator of the City of Auburn Hill's financial position. Assets of the City of Auburn Hills exceeded liabilities by \$178,472,255 at December 31, 2005.

The net assets for the City of Auburn Hills is comprised of \$22,091,462 in assets which are restricted for specific programs and functions, \$120,883,304 investment in capital assets (land, streets, water and sewer mains, etc.) net of any related debt that is still outstanding to purchase or construct these assets, and \$35,497,489 in unrestricted assets. The City utilizes the capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay the outstanding debt issued to purchase or construct these assets (\$20,096,009), must be provided from other sources, since the capital assets themselves cannot be sold and the proceeds used to liquidate the outstanding debt.

Statement of Net Assets-City of Auburn Hills (In Millions)

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u> <u>Primary Government</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and other asset-----	\$ 58.1	\$ 61.3	\$ 20.3	\$ 20.0	\$ 78.4	\$ 81.3
Capital assets -----	<u>79.2</u>	<u>72.1</u>	<u>70.3</u>	<u>69.5</u>	<u>149.5</u>	<u>141.6</u>
Total Assets -----	<u>137.3</u>	<u>133.4</u>	<u>90.6</u>	<u>89.5</u>	<u>227.9</u>	<u>222.9</u>
Long-term liabilities -----	7.8	8.6	13.8	14.5	21.6	23.1
Other liabilities -----	<u>25.2</u>	<u>25.9</u>	<u>2.6</u>	<u>1.7</u>	<u>27.8</u>	<u>27.6</u>
Total Liabilities-----	<u>33.0</u>	<u>34.5</u>	<u>16.4</u>	<u>16.2</u>	<u>49.4</u>	<u>50.7</u>
Net Assets:						
Invested in capital assets,						
Net of related debt-----	<u>64.4</u>	<u>64.5</u>	<u>56.5</u>	<u>52.8</u>	<u>120.9</u>	<u>117.3</u>
Restricted -----	22.1	21.0			22.1	21.0
Unrestricted -----	17.8	13.4	17.7	20.5	35.5	33.9
Total Net Assets-----	<u>\$104.3</u>	<u>\$ 98.9</u>	<u>\$ 74.2</u>	<u>\$ 73.3</u>	<u>\$ 178.5</u>	<u>\$ 172.2</u>

A portion of the City of Auburn Hill's net assets (12.4%) represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets (\$35,497,489) may be used to meet the government's obligations to citizens and creditors.

At the end of 2005, the City of Auburn Hills is able to report positive balances in both categories of net assets, for the City as a whole, and for the governmental and business-type activities. This was also the case at the end of 2003 and 2004.

The City's total net assets increased \$6,322,439. This net increase is attributable to the use of current resources to liquidate long-term liabilities of the City and the results of on-going operations. By using current resources, or revenue, to reduce liabilities on the statement of net assets, rather than expensing the costs the net asset balances increase. The increase in the net assets of the governmental activities was \$5,378,207 while the business-type activities realized an increase in total net assets of \$944,232. Detailed on the following page is a summary of the changes in the City's net assets:

City of Auburn Hill's Change in Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<u>Revenues</u>						
Program Revenues:						
Charges for services -----	\$ 2.2	\$ 1.8	\$ 10.2	\$ 9.6	\$ 12.4	\$ 11.4
Operating grants and contributions ----	1.4	1.5			1.4	1.5
Capital grants and contributions -----	.1		1.4	2.2	1.5	2.2
General Revenues:						
Taxes-----	19.0	19.0	.5	.8	19.5	19.8
State shared revenues-----	1.7	1.6			1.7	1.6
Use of money and investments -----	1.9	1.1	.5	.2	2.4	1.3
Other unrestricted revenues-----	<u>3.3</u>	<u>3.1</u>	<u>.4</u>	<u>.4</u>	<u>3.7</u>	<u>3.5</u>
Total revenues	29.6	28.1	13.0	13.2	42.6	41.3
<u>Expense</u>						
Legislative-----	.2	.2			.2	.2
Management and planning -----	2.4	2.6			2.4	2.6
Public Safety -----	11.1	11.3			11.1	11.3
Streets, highways, & public improve. -	4.8	4.4			4.8	4.4
Community & economic dev. -----	2.5	2.2			2.5	2.2
General support -----	2.5	2.4			2.5	2.4
Interest on long-term debt -----	.4	.4			.4	.4
Increase in MTT liability -----		.8				.8
Water-----			5.1	5.1	5.1	5.1
Sewer -----			4.7	4.5	4.7	4.5
Fieldstone golf club -----			<u>2.6</u>	<u>2.6</u>	<u>2.6</u>	<u>2.6</u>
Total expenses	<u>23.9</u>	<u>24.3</u>	<u>12.4</u>	<u>12.2</u>	<u>36.3</u>	<u>36.5</u>
Increase in net assets before transfers	5.7	3.8	.6	1.0	6.3	4.8
Transfers-----	<u>(.3)</u>	<u>(1.8)</u>	<u>.3</u>	<u>1.8</u>	<u>0</u>	<u>0</u>
Increase (decrease) in net assets	<u>\$ 5.4</u>	<u>\$ 2.0</u>	<u>\$.9</u>	<u>\$ 2.8</u>	<u>\$ 6.3</u>	<u>\$ 4.8</u>

Governmental Activities. Governmental activities increased the City of Auburn Hill's net assets by \$5,378,207. The key elements affecting this change are as follows:

- The City of Auburn Hills spent a total of \$1,694,990 on purchase or construction of governmental activities capital assets during 2005. In previous accounting methodologies, this amount would have been a use of current resources and a corresponding reduction in fund balance. GASB-34 provisions require that these assets be capitalized which results in no reduction in total assets. However, the costs of assets are allocated to the fiscal periods benefiting from their acquisition by recording depreciation expense. Recording depreciation expense reduced total assets by \$2,584,923.
- The City made total long-term debt principal repayments totaling \$946,563. Previously this would have been recorded as an expenditure reducing net assets.
- During 2005 interest income from investments increased by \$719,511; net transfers-out decreased by \$1,513,881, and the Michigan Tax Tribunal tax appeal amount decreased by \$943,860.

Business-Type Activities. Business-type activities increased the City of Auburn Hill's net assets \$944,232. Key elements of this decrease are as follows:

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF AUBURN HILLS

- The water and sewer funds incurred operating losses in the amount of \$835,604 and \$595,701 respectively; however, non-operating revenues and capital contributions contributed \$918,730 and \$1,373,340 respectively to the net assets of these two funds. The operating losses resulted from charges being insufficient to cover the direct and operating costs of providing these services.
- The Fieldstone Golf Club fund had an operating loss of \$105,808 and an additional \$277,173 in net non-operating income (expenses), capital contributions, and transfers-in.

Financial Analysis of the Government's Funds

As noted earlier, the City of Auburn Hills' uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Auburn Hills' governmental funds is to provide information on near-term inflows, outflows, and balances of spend-able resources. Such information is useful in assessing the City's financing requirements and ability to meet financial demands as they occur. In particular, unreserved fund balance may serve as a useful measure of government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Auburn Hill's governmental funds reported combined ending fund balances of \$26,189,478, an increase of \$4,874,790 from the 2004 balance of \$21,314,688. This is an increase of 22.9%. Except for \$18,345, the entire fund constitutes an unreserved fund balance which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City of Auburn Hills. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$4,284,332. The unreserved fund balance represents 36.3% of total general fund expenditures.

After comparing the general fund balance to the balance as of December 31, 2004, the fund balance of the City of Auburn Hills' general fund increased by \$1,087,197. The key factors in this increase are as follows:

- The increase is primarily attributable to an increase in fund revenues. General fund revenues in 2005 increased by \$1,662,697 over the prior year. The increases were experienced primarily in charges for services (particularly the categories of engineering services and senior citizen programs) and property tax revenues. Also, interest revenue from investments in 2005 was higher by \$443,443, and the tax collection fee increased by \$133,509. With respect to expenses, excluding fund transfers, the total increase was limited to \$286,233 or 3.2%.

The fund balances in all other City of Auburn Hills' governmental funds increased by \$3,787,593, from \$18,099,208 to \$21,886,801, an increase of 20.9%. In revenues, the Police Fund had an increase of \$307,571 or 2.7% over the prior year. Revenues in other government funds were consistent with the prior year. In expenses, the principal and interest payments decreased in 2005 by \$884,353, and capital outlays expenditures decreased by \$1,569,888. In addition, net transfers-in to these funds increased by \$825,026.

Proprietary Funds. The City of Auburn Hill's proprietary funds provide the same type of information found in the government-wide financial statements, but in greater detail.

Unrestricted net assets in the proprietary funds decreased a total of \$2,914,614.

- The water and sewer funds incurred operating losses in the amount of \$835,604 and \$595,701 respectively. These operating losses were the result of charges for water and sewer not covering the direct operating costs of providing these services. Fieldstone Golf Club had an operating loss of \$105,808.

General Fund Budgetary Highlights

- Four general fund departments' budgets exceeded their total expense budgets for 2005 by the combined amount of \$63,673. The general fund also made two unbudgeted transfers of \$1,000,000 and \$241,735 to the Street Improvement fund and the Fieldstone Golf Club fund respectively. Excluding the unbudgeted fund transfers, in total the general fund expenditures were under budget by \$1,646,300 in 2005.

Capital Asset and Debt Administration

Capital Assets. The City of Auburn Hill's investment in capital assets for its governmental and business type activities as of December 31, 2005, amounts to \$120,883,304 (net of accumulated depreciation and related debt). This investment in capital assets includes water and sewer mains, office furniture and equipment, machinery and equipment, vehicles, buildings and improvements, roads, and storm drains.

Additional information regarding the City's capital assets can be found in Note E in Exhibit A-14 of this report.

Long-Term Debt. At the end of the current fiscal year, the City of Auburn Hills had total debt outstanding of \$21,390,953. The issues included \$495,000 of general obligation unlimited tax bond issues, \$675,000 of general obligation limited tax bond issues, and \$1,325,953 in land contracts and Michigan Tax Tribunal property tax appeals.

Total indebtedness of the City decreased \$1,740,996 from \$23,131,949 to \$21,390,953. This decrease resulted from principal payments of \$1,662,502 on outstanding bonds and other installment loans and a net reduction in Michigan Tax Tribunals tax appeals of \$78,495. There was no new debt issued by the City in 2005.

The City has an A+ and A rating from Standard & Poor's Corporation and a A1 and A2 from Moody's Investors Service on general obligation unlimited tax bond issues and on issues with tax limitations, respectively.

The City debt limit, as defined by statute, is ten percent (10%) of equalized property values or \$282,302,043. Total City long-term debt was \$21,390,953 at December 31, 2005. Of this amount, \$14,990,000 is subject to the debt limit. Currently the City is utilizing only 5.3% of its total debt capacity per state statute.

Additional information on the City of Auburn Hill's long-term debt can be found in Note F of Exhibit A-14 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City of Auburn Hills at the end of 2005 was 5.5% which was a decrease from the 2004 level of 5.6%. Although the change is modest, the employment rate is still low for the region.
- The government expects to see reduced funding from the State of Michigan due to continuing budget problems at the State level.
- The City continues to experience increases in the cost of pension contributions and medical insurance rates due to the continuing lack of stability in the stock market and the increasing costs of medical care respectively. These factors were considered in the 2006 budget process as well as negotiations with union bargaining groups of the City.
- The approved 2006 City of Auburn Hill's budget projected the general fund balance to increase by \$33,082 during 2006.

Request for Information

This financial report is designed to provide a general overview of the City of Auburn Hill's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Office, City of Auburn Hills, 1827 N Squirrel Rd., Auburn Hills, Michigan 48326.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
DECEMBER 31, 2005

CITY OF AUBURN HILLS

Exhibit A-1

	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents (Note C and M).....	\$ 30,615,106	\$ 18,784,963	\$ 49,400,069	\$ 11,744,601
Receivables:				
Due from other governmental units.....	818,236		818,236	
Taxes.....	20,229,314		20,229,314	5,795,433
Accounts.....	1,398,418	1,356,122	2,754,540	
Special Assessments.....	5,026,537	13,168	5,039,705	
Accrued interest.....		29,213	29,213	
Prepayments.....	18,345		18,345	
Inventories.....		107,941	107,941	
Capital assets (net of accum. deprec.): (Note E and Note M)				
Depreciable assets:				
Water and sewer mains.....		50,924,105	50,924,105	
Office furniture & equipment.....	105,026		105,026	
Machinery & equipment.....	1,114,824	668,035	1,782,859	
Vehicles.....	890,803	198,890	1,089,693	
Buildings & improvements.....	10,460,111	6,272,108	16,732,219	12,750,346
Roads.....	47,692,644		47,692,644	17,437,404
Storm drains.....	5,366,586		5,366,586	
Non-depreciable assets:				
Land & improvements.....	5,004,573	8,397,496	13,402,069	7,986,377
Construction in progress.....		1,997,700	1,997,700	3,311,813
Unamortized discount & issuance costs.....		1,886,412	1,886,412	
Pension Asset (Note I).....	8,593,662		8,593,662	
TOTAL ASSETS	137,334,185	90,636,153	227,970,338	59,025,974
LIABILITIES				
Accounts Payable.....	1,176,739	2,332,812	3,509,551	1,047,993
Accrued payroll and other liabilities.....	334,555		334,555	
Due to other governmental units.....			0	4,368,583
Deposits payable.....	2,444,522		2,444,522	
Unearned revenue (Note D).....	20,229,314		20,229,314	5,797,033
Accrued interest payable.....	77,872		77,872	
Other liabilities.....		137,954	137,954	
Non-current liabilities:			0	
Current portion of long-term debt (Note F)...	1,006,629	784,380	1,791,009	
Long-term debt (net of current portion) (Note F and Note M).....	6,544,944	13,055,000	19,599,944	874,837
Compensated Absences.....	1,247,464	125,898	1,373,362	
TOTAL LIABILITIES	33,062,039	16,436,044	49,498,083	12,088,446
NET ASSETS				
Invested in cap. assets (net of related debt)....	64,377,938	56,505,366	120,883,304	41,485,940
Restricted assets (Note B)				
Police Fund.....	14,255,234		14,255,234	
Brown Road Special Assessment Fund...	5,207,167		5,207,167	
Other funds.....	2,629,061		2,629,061	5,451,588
Unrestricted.....	17,802,746	17,694,743	35,497,489	
TOTAL NET ASSETS	\$ 104,272,146	\$ 74,200,109	\$ 178,472,255	\$ 46,937,528

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

CITY OF AUBURN HILLS

Exhibit A-2

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
Legislative.....	\$ 221,283			
Management and planning.....	2,394,903		\$ 33,850	
Public safety.....	11,087,894	\$ 999,985	12,362	
Streets, highways, & public improvements.....	4,768,456		1,305,929	42,000
Community and economic development.....	2,498,578	1,216,335	83,399	
General support.....	2,539,177	22,645		
Interest on long-term debt.....	368,566			
Total Governmental Activities	23,878,857	2,238,965	1,435,540	42,000
Business-type activities:				
Water.....	5,075,260	4,259,829		\$ 435,636
Sewer.....	4,688,502	4,092,801		937,704
Fieldstone Golf Club.....	2,675,808	1,893,971		
Total Business-Type Activities	12,439,570	10,246,601	0	1,373,340
Total Primary Government	\$ 36,318,427	\$ 12,485,566	\$ 1,435,540	\$ 1,415,340
Component units:				
TIFA 85-A.....	\$ 597,662			
TIFA 85-B.....	129,990			
TIFA 86-D.....	522,353			
Brownfield Authority.....	364,380			
Economic Development Corporation.....	175	1,600		
Total Component Units	\$ 1,614,560	\$ 1,600	\$ 0	\$ 0

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>	<u>Component Units</u>
	\$ (221,283)		\$ (221,283)	
	(2,361,053)		(2,361,053)	
	(10,075,547)		(10,075,547)	
	(3,420,527)		(3,420,527)	
	(1,198,844)		(1,198,844)	
	(2,516,532)		(2,516,532)	
	<u>(368,566)</u>		<u>(368,566)</u>	
	<u>(20,162,352)</u>		<u>(20,162,352)</u>	
		\$ (379,795)	(379,795)	
		342,003	342,003	
		<u>(781,837)</u>	<u>(781,837)</u>	
	<u>0</u>	<u>(819,629)</u>	<u>(819,629)</u>	
	<u>(20,162,352)</u>	<u>(819,629)</u>	<u>(20,981,981)</u>	
				\$ (597,662)
				(129,990)
				(522,353)
				(364,380)
				<u>1,425</u>
	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,612,960)</u>
General Revenues:				
Taxes.....	19,013,949	463,000	19,476,949	6,421,626
State shared revenues.....	1,692,490		1,692,490	
Use of money and investments.....	1,862,088	510,650	2,372,738	337,493
Other general revenues:				
Landfill proceeds.....	1,460,775		1,460,775	
Franchise fees.....	138,666		138,666	
Cellular lease.....	61,979		61,979	
Other general revenues.....	1,661,783	439,040	2,100,823	
Transfers.....	<u>(351,171)</u>	<u>351,171</u>	<u>0</u>	
Total General Revenues and Transfers	<u>25,540,559</u>	<u>1,763,861</u>	<u>27,304,420</u>	<u>6,759,119</u>
Change in net assets.....	5,378,207	944,232	6,322,439	5,146,159
Net assets-beginning Balance.....	<u>98,893,939</u>	<u>73,255,877</u>	<u>172,149,816</u>	<u>41,791,369</u>
Net Assets-ending.....	<u>\$ 104,272,146</u>	<u>\$ 74,200,109</u>	<u>\$ 178,472,255</u>	<u>\$ 46,937,528</u>

BALANCE SHEET-GOVERNMENTAL FUNDS
DECEMBER 31, 2005

CITY OF AUBURN HILLS

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>
<u>ASSETS</u>			
Cash and cash equivalents (Note C).....	\$ 5,086,931	\$ 361,796	\$ 239,561
Receivables:			
Due from other governmental units.....	587,210	141,357	44,662
Taxes.....	5,056,509		
Due from other funds (Note G).....	930,093		
Accounts.....	197,331		50
Special Assessments.....	14,537		
Prepays.....	18,345		
TOTAL ASSETS	\$ 11,890,956	\$ 503,153	\$ 284,273
<u>LIABILITIES AND FUND BALANCES</u>			
LIABILITIES			
Accounts Payable.....	\$ 483,365	\$ 81,664	\$ 22,280
Accrued payroll and other liabilities.....	92,900	8,462	5,100
Due to other governmental units.....			
Due to other funds (Note G).....	415,911	32,808	17,165
Deposits payable.....	1,383,192	509,727	325,740
Deferred revenue (Note D).....	5,212,911		
TOTAL LIABILITIES	7,588,279	632,661	370,285
FUND BALANCES			
Fund balances-Reserved for:			
Prepayments.....	18,345		
Fund balances-Unreserved:			
Undesignated:			
Reported in general fund.....	4,284,332		
Reported in special revenue funds.....		(129,508)	(86,012)
Reported in debt service funds.....			
Reported in capital project funds.....			
TOTAL FUND BALANCES	4,302,677	(129,508)	(86,012)
TOTAL LIABILITIES AND FUND BALANCES	\$ 11,890,956	\$ 503,153	\$ 284,273

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

Exhibit A-3

<u>Police</u>	<u>Fire</u>	<u>Brown Rd. Spec. Assess.</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
\$ 15,066,234	\$ 2,126,138	\$ 195,167	\$ 6,300,890	\$ 29,376,717
			45,007	818,236
11,381,803	3,347,396		443,606	20,229,314
			26,193	956,286
264,324	4,600		506	466,811
		5,012,000		5,026,537
				18,345
<u>\$ 26,712,361</u>	<u>\$ 5,478,134</u>	<u>\$ 5,207,167</u>	<u>\$ 6,816,202</u>	<u>\$ 56,892,246</u>
\$ 159,106	\$ 18,509		\$ 321,108	\$ 1,086,032
162,458	61,041			329,961
607,251	165,610		10,876	1,249,621
	4,377		221,486	2,444,522
<u>11,528,312</u>	<u>3,350,796</u>	<u>\$ 5,012,000</u>	<u>488,613</u>	<u>25,592,632</u>
12,457,127	3,600,333	5,012,000	1,042,083	30,702,768
				18,345
14,255,234	1,877,801		3,753,433	4,284,332
		195,167	161,102	19,670,948
			1,859,584	356,269
				1,859,584
<u>14,255,234</u>	<u>1,877,801</u>	<u>195,167</u>	<u>5,774,119</u>	<u>26,189,478</u>
<u>\$ 26,712,361</u>	<u>\$ 5,478,134</u>	<u>\$ 5,207,167</u>	<u>\$ 6,816,202</u>	<u>\$ 56,892,246</u>

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

CITY OF AUBURN HILLS

Exhibit A-4

Total fund balances of governmental funds (See Exhibit A-3) \$ 26,189,478

Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Office furniture & equipment.....	\$ 105,026	
Machinery & equipment.....	1,114,824	
Vehicles.....	890,803	
Buildings & improvements.....	10,460,111	
Land & improvements.....	5,004,573	
Streets.....	47,692,644	
Storm drains.....	<u>5,366,586</u>	70,634,567

Allocation of Internal Service Funds to Governmental activities:

Fleet Management (exclusive of Fleet Management capital assets).....	1,120,566
--	-----------

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the funds.

Governmental obligation loans payable.....	6,245,000	
Land contract payable.....	11,629	
Accrued interest payable.....	77,872	
Tax tribunal cases.....	<u>1,294,944</u>	(7,629,445)

Other long-term assets are not available to pay for current period
expenditures and therefore are not reported in the funds.

Special assessments receivable.....	5,096,000	
Police and Fire Departments receivables for fines and services	222,311	
Grant receivables.....	<u>45,007</u>	5,363,318

Record Pension Asset.....	<u>8,593,662</u>
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Net assets of governmental activities \$ 104,272,146

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND
BALANCES--GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

CITY OF AUBURN HILLS

Exhibit A-5

	<u>General</u>	<u>Major Streets</u>
<u>REVENUE</u>		
Property taxes.....	\$ 5,012,615	
Special assessments.....		
Licenses and permits.....	607,951	
Charges for services.....	597,848	
Fines and forfeitures.....		
Federal sources.....		
State sources.....	1,671,749	\$ 954,947
Use of money and property.....	1,448,524	12,702
Administrative and interfund charges.....	3,199,071	
Other.....	355,253	240
TOTAL REVENUE	12,893,011	967,889
<u>EXPENDITURES</u>		
Current operations:		
Legislative.....	225,274	
Management and planning.....	3,366,277	
Public safety.....		
Streets, highways, & public improvements.....	401,855	1,416,497
Community and economic development.....	2,197,477	
General support.....	2,683,324	
Capital outlay.....	320,718	
Debt service:		
MTT refunds.....		
Principal payments.....	21,563	
Interest.....	2,591	
TOTAL EXPENDITURES	9,219,079	1,416,497
REVENUE OVER (UNDER) EXPENDITURES	3,673,932	(448,608)
<u>OTHER FINANCING SOURCES (USES)</u>		
General fund transfers.....	(2,586,735)	200,000
Transfers in from other funds.....		(65,052)
Transfers out to other funds.....		
TOTAL OTHER FINANCING SOURCES (USES)	(2,586,735)	134,948
REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	1,087,197	(313,660)
Fund balance at beginning of year.....	3,215,480	184,152
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ 4,302,677	\$ (129,508)

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

<u>Local Streets</u>	<u>Police</u>	<u>Fire</u>	<u>Brown Rd Spec. Assess Debt</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
	\$ 10,446,068	\$ 3,072,170		\$ 404,601	\$ 18,935,454
			\$ 392,000		392,000
	12,035			640	620,626
	605,568	150,890		884,845	2,239,151
	283,064			0	283,064
		37,944		41,851	79,795
\$ 291,115	54,290			71,447	3,043,548
2,737	388,721	64,495	315,213	110,633	2,343,025
					3,199,071
4,758	28,923	78,627		1,733,575	2,201,376
298,610	11,818,669	3,404,126	707,213	3,247,592	33,337,110
					225,274
				493,110	3,859,387
	9,759,291	3,114,268		17,996	12,891,555
890,142			275	455,760	3,164,529
				94,403	2,291,880
	156,186	62,181		1,022,550	2,683,324
					1,561,635
			425,000	500,000	946,563
			282,950	83,025	368,566
890,142	9,915,477	3,176,449	708,225	2,666,844	27,992,713
(591,532)	1,903,192	227,677	(1,012)	580,748	5,344,397
500,000				1,645,000	(241,735)
		(162,820)		1,382,994	1,382,994
				(1,382,994)	(1,610,866)
500,000	0	(162,820)	0	1,645,000	(469,607)
(91,532)	1,903,192	64,857	(1,012)	2,225,748	4,874,790
5,520	12,352,042	1,812,944	196,179	3,548,371	21,314,688
\$ (86,012)	\$ 14,255,234	\$ 1,877,801	\$ 195,167	\$ 5,774,119	\$ 26,189,478

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005
CITY OF AUBURN HILLS**

Exhibit A-6

Net change in fund balance-total governmental funds (See Exhibit A-5) \$ 4,874,790

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlay as expenditures. However, in the Statement
of Activities the cost of assets is allocated over their useful lives and reported as
depreciation expense. Details of the adjustments are:

Capital outlay (less Internal Service additions of \$280,062).....	1,694,990
Depreciation expense (less Internal Service depreciation expense of \$467,563).....	(2,584,923)
Miscellaneous.....	2,511

The payment of principal on long-term debt consumes current financial resources of the
of the governmental funds. However, on the Statement of Net Assets, repayment of
principal is recorded as a reduction to long-term debt payable and does not have
any effect on net assets.

Long-term debt principal repayment.....	946,563
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The activities of the internal service funds are considered part of the governmental activities on the Government-Wide Statements but are not reported in the governmental funds.....	236,911
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Decrease in liability for the MTT Appeals.....	78,495
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Revenues in the statement of activities that do not provide current financial resources (deferred revenues) are not reported as revenues in the funds.....	(384,041)
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Pension asset change revenues reported in the Statement of Activities do not provide current financial resources and therefore are not reported as revenues in the governmental funds.....	512,911
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Change in net assets of governmental activities \$ 5,378,207

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

STATEMENT OF NET ASSETS -- PROPRIETARY FUNDS
DECEMBER 31, 2005

CITY OF AUBURN HILLS

Exhibit A-7

		Enterprise	
		Water	Sewer
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents.....		\$ -	\$ 18,310,393
Receivables:			
Accounts.....			
Special assessments.....		626,415	731,033
Due from other funds (Note G).....		8,379	4,789
Accrued interest.....		563,816	1,700,170
Inventories.....		15,237	13,976
		73,520	
TOTAL CURRENT ASSETS		1,287,367	20,760,361
LAND, BUILDINGS AND EQUIPMENT			
Water and sewer mains.....			
Land and improvements.....		28,970,245	31,024,958
Facilities.....			
Vehicles.....			
Other equipment.....			
Construction in progress.....		2,253,688	88,759
		1,997,700	
TOTAL CAPITAL ASSETS		33,221,633	31,113,717
Less: Allowance for depreciation.....		4,838,460	6,010,729
TOTAL CAPITAL ASSETS NET OF DEPRECIATION		28,383,173	25,102,988
Other non-current assets - unamortized discount & bond issuance costs.....			
TOTAL FOR NON-CURRENT ASSETS		28,383,173	25,102,988
TOTAL ASSETS		29,670,540	45,863,349
CURRENT LIABILITIES			
Current portion of long-term debt.....			
Accounts payable.....			
Due to other funds (Note G).....		1,415,417	876,090
Other liabilities.....		76,747	26,111
		18,029	5,494
TOTAL CURRENT LIABILITIES		1,510,193	907,695
LONG TERM DEBT-Net of current portion.....			
TOTAL LIABILITIES		1,510,193	907,695
NET ASSETS:			
Invested in capital assets net of related debt.....		28,383,173	25,102,988
Unrestricted.....		(222,826)	19,852,666
TOTAL NET ASSETS		\$ 28,160,347	\$ 44,955,654

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

Funds			
	Fieldstone Golf Club	Total	Internal Service
	\$ 10,470	\$ 18,320,863	\$ 1,702,489
		1,357,448	
		13,168	
		2,263,986	1,373,175
		29,213	
	<u>34,421</u>	<u>107,941</u>	
	44,891	22,092,619	3,075,664
		59,995,203	
	8,397,496	8,397,496	
	7,880,085	7,880,085	
	22,510	2,364,957	3,210,641
		<u>1,997,700</u>	<u>1,018,460</u>
	16,300,091	80,635,441	4,229,101
	<u>1,625,982</u>	<u>12,475,171</u>	<u>3,135,689</u>
	<u>14,674,109</u>	<u>68,160,270</u>	<u>1,093,412</u>
	<u>1,886,412</u>	<u>1,886,412</u>	
	<u>16,560,521</u>	<u>70,046,682</u>	
	<u>16,605,412</u>	<u>92,139,301</u>	<u>4,169,076</u>
	784,380	784,380	
	7,312	2,298,819	124,700
	2,279,912	2,382,770	30,962
	<u>112,709</u>	<u>136,232</u>	<u>1,379,491</u>
	3,184,313	5,602,201	1,535,153
	<u>13,055,000</u>	<u>13,055,000</u>	
	16,239,313	18,657,201	1,535,153
	2,721,141	56,207,302	1,093,412
	<u>(2,355,042)</u>	<u>17,274,798</u>	<u>1,540,511</u>
	<u>\$ 366,099</u>	73,482,100	<u>\$ 2,633,923</u>

Amounts reported for business-type activities in the statement of net assets are different because:

Allocation of internal service fund (Fleet Management fund) to business-type activities.....	<u>718,009</u>
Net assets of business-type activities	<u>\$ 74,200,109</u>

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS -- PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

CITY OF AUBURN HILLS

Exhibit A-8

	<u>Enterprise</u>	
	<u>Water</u>	<u>Sewer</u>
<u>OPERATING REVENUE</u>		
Water charges.....	\$ 3,709,776	
Sewer Charges.....		\$ 3,862,579
Hydrant and equipment rental.....		
Vehicle rental fees.....		
Green fees.....		
Golf cart rentals.....		
Practice range fees.....		
Merchandise sales.....		
Food & beverage sales.....		
Other operating income.....		
TOTAL OPERATING REVENUE	<u>550,053</u> <u>4,259,829</u>	<u>230,222</u> <u>4,092,801</u>
<u>OPERATING EXPENSES</u>		
Salaries and wages.....	589,425	177,027
Fringe benefits.....	386,819	89,351
Supplies.....	163,037	17,669
Contracted services.....	605,545	375,196
Other operating expenses.....	298,434	264,772
Administrative charges.....	478,186	308,672
Cost of water and sewage disposal.....	2,005,961	3,129,240
Depreciation and amortization.....	<u>568,026</u>	<u>326,575</u>
TOTAL OPERATING EXPENSES	<u>5,095,433</u>	<u>4,688,502</u>
TOTAL OPERATING INCOME (LOSS)	<u>(835,604)</u>	<u>(595,701)</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Interest earned.....		
Interest expense.....	40,834	459,346
Property taxes.....		
Other income.....		
TOTAL NONOPERATING REVENUE (EXPENSE)	<u>209,275</u>	<u>209,275</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS & CAPITAL CONTRIBUTIONS	<u>250,109</u> <u>(585,495)</u>	<u>668,621</u> <u>72,920</u>
<u>CAPITAL CONTRIBUTIONS</u>		
Capital and lateral charges.....	194,884	923,795
Developer contributions.....	<u>240,752</u>	<u>13,909</u>
TOTAL CAPITAL CONTRIBUTIONS	<u>435,636</u>	<u>937,704</u>
LOSS BEFORE OPERATING TRANSFERS	<u>(149,859)</u>	<u>1,010,624</u>
<u>OPERATING TRANSFERS</u>		
Transfers-in/(out).....	<u>32,526</u>	<u>(209,209)</u>
TOTAL OPERATING TRANSFERS	<u>32,526</u>	<u>(209,209)</u>
CHANGE IN NET ASSETS	<u>(117,333)</u>	<u>801,415</u>
Net assets-beginning of year.....	<u>28,277,680</u>	<u>44,154,239</u>
NET ASSETS AT END OF YEAR	<u>\$ 28,160,347</u>	<u>\$ 44,955,654</u>

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

Funds			
	Fieldstone Golf Club	Total	Internal Service
		\$ 3,709,776	
		3,862,579	
		0	\$ 1,192,501
			571,600
\$	1,292,577	1,292,577	
	8,408	8,408	
	57,892	57,892	
	83,174	83,174	
	443,586	443,586	
	8,334	788,609	34,799
	<u>1,893,971</u>	<u>10,246,601</u>	<u>1,798,900</u>
	348,880	1,115,332	227,900
	102,921	579,091	135,925
	307,389	488,095	370,820
	624,481	1,605,222	243,097
	138,960	702,166	104,369
		786,858	
		5,135,201	
	477,148	1,371,749	642,788
	<u>1,999,779</u>	<u>11,783,714</u>	<u>1,724,899</u>
	(105,808)	(1,537,113)	74,001
	6,732	506,912	13,711
	(676,029)	(676,029)	
	463,000	463,000	
		418,550	75,164
	<u>(206,297)</u>	<u>712,433</u>	<u>88,875</u>
	(312,105)	(824,680)	162,876
		1,118,679	
		254,661	
	<u>0</u>	<u>1,373,340</u>	<u>0</u>
	(312,105)	548,660	162,876
	483,470	306,787	162,820
	<u>483,470</u>	<u>306,787</u>	<u>162,820</u>
	171,365	855,447	325,696
	194,734		2,308,227
\$	<u>366,099</u>		<u>\$ 2,633,923</u>
Amounts reported for business-type activities in the statement of activities are different because the business-type activities of the internal service fund have been added to these activities.....		88,785	
Change in net assets of business-type activities		<u>\$ 944,232</u>	

STATEMENT OF CASH FLOWS -- PROPRIETARY FUNDS
DECEMBER 31, 2005

CITY OF AUBURN HILLS

Exhibit A-9

	<u>Enterprise</u>	
	<u>Water</u>	<u>Sewer</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from customers.....	\$ 3,804,044	\$ 4,235,378
Cash payments for goods and services.....	(3,206,752)	(3,755,276)
Cash payments to employees.....	(51,783)	(270,513)
Other operating expenses.....	(298,434)	(264,772)
Other operating income.....	550,053	230,222
NET CASH PROVIDED BY OPERATING ACTIVITIES	797,128	175,039
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
Operating transfers in	32,526	(209,209)
Other nonoperating receipts.....	209,275	209,275
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	241,801	66
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Principal paid on long term debt.....		
Interest paid on long term debt.....		
Capital and lateral charges.....	194,884	923,795
Purchase of capital assets.....	(2,053,250)	(12,569)
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(1,858,366)	911,226
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest received on investments.....	40,834	459,346
NET CASH PROVIDED BY INVESTING ACTIVITIES	40,834	459,346
Net increase (decrease) in cash and cash equivalents.....	(778,603)	1,545,677
Cash and cash equivalents-Beginning of year.....	778,603	16,764,716
Cash and cash equivalents-end of year.....	\$ 0	\$ 18,310,393
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income (loss).....	\$ (835,604)	\$ (595,701)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Depreciation and amortization expense	568,026	326,575
Decrease (increase) in accounts receivable	20,962	(52,566)
Decrease (increase) in special assessments receivable	2,940	2,940
Decrease (increase) in inventory	(10,936)	
Decrease (increase) in due from other funds	70,366	422,424
Increase (decrease) in accounts payable	992,235	75,502
Increase (decrease) in due to other funds	(10,085)	
Increase (decrease) in accrued payroll and other liabilities	(776)	(4,135)
Total Adjustments	1,632,732	770,740
Net cash provided by (used in) operating activities	\$ 797,128	\$ 175,039

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended December 31, 2005, developers contributed \$254,661 of mains to the City, of which \$240,752 were water mains while the remaining \$13,909 were sewer mains.

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

<u>Funds</u>		
<u>Fieldstone Golf Club</u>	<u>Total</u>	<u>Internal Service</u>
\$ 1,885,637	\$ 9,925,059	\$ 1,764,101
(1,102,026)	(8,064,054)	(864,907)
(448,815)	(771,111)	(326,377)
	(563,206)	(104,369)
8,334	788,609	
<u>343,130</u>	<u>1,315,297</u>	<u>468,448</u>
483,470	306,787	162,820
113,000	531,550	75,164
<u>596,470</u>	<u>838,337</u>	<u>237,984</u>
(715,939)	(715,939)	
(682,112)	(682,112)	
	1,118,679	
(5,405)	(2,071,224)	(385,018)
<u>(1,403,456)</u>	<u>(2,350,596)</u>	<u>(385,018)</u>
6,732	506,912	13,711
<u>6,732</u>	<u>506,912</u>	<u>13,711</u>
(457,124)	309,950	335,125
<u>467,594</u>	<u>18,010,913</u>	<u>1,367,364</u>
<u>\$ 10,470</u>	<u>\$ 18,320,863</u>	<u>\$ 1,702,489</u>
\$ (105,808)	(1,537,113)	74,001
477,148	1,371,749	642,788
	(31,604)	
	5,880	
5,874	(5,062)	
	492,790	(34,799)
(37,070)	1,030,667	(250,990)
	(10,085)	2,510
2,986	(1,925)	34,938
<u>448,938</u>	<u>2,852,410</u>	<u>394,447</u>
<u>\$ 343,130</u>	<u>\$ 1,315,297</u>	<u>468,448</u>

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2005

CITY OF AUBURN HILLS

Exhibit A-10

	<u>Agency Fund</u>	<u>Pension Trust Fund</u>
<u>ASSETS</u>		
Cash and cash equivalents (Note C).....	\$ 20,140,731	\$ 126,387
Receivables:		
Accrued interest and dividends.....		803
Investments at fair value:		
Mutual funds.....		23,214,335
TOTAL ASSETS	20,140,731	23,341,525
<u>LIABILITIES</u>		
Due to other Funds.....	930,093	
Undistributed tax collections.....	19,210,638	
TOTAL LIABILITIES	20,140,731	0
<u>NET ASSETS</u>		
Held in trust for pension benefits and other purposes.....	\$ 0	\$ 23,341,525

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2005**

CITY OF AUBURN HILLS

Exhibit A-11

	Pension Trust Fund
<u>ADDITIONS</u>	
Contributions:	
Employer.....	\$ 1,577,269
Plan Members.....	229,704
TOTAL CONTRIBUTIONS	1,806,973
Investment earnings:	
Net increase in fair value of investments.....	1,579,391
Interest.....	11,524
TOTAL INVESTMENT EARNINGS	1,590,915
Less: investment expenses.....	(80,529)
NET INVESTMENT EARNINGS	1,510,386
TOTAL ADDITIONS	3,317,359
<u>DEDUCTIONS</u>	
Pension benefits.....	1,138,912
TOTAL DEDUCTIONS	1,138,912
CHANGE IN NET ASSETS	2,178,447
Net assets-beginning of the year.....	21,163,078
NET ASSETS-END OF THE YEAR	\$ 23,341,525

STATEMENT OF NET ASSETS -- COMPONENT UNITS
DECEMBER 31, 2005

CITY OF AUBURN HILLS

Exhibit A-12

	<u>TIFA 85-A</u>	<u>TIFA 85-B</u>
<u>ASSETS</u>		
Cash and cash equivalents (Note M).....	\$ 5,438,757	\$ 1,954,475
Receivables:		
Taxes.....	1,016,278	1,469,158
Land (Note M).....	5,137,435	
Land Improvements (Note M).....	831,731	
Buildings & Improvements (Note M).....		
Construction in progress (Note M).....		
Roads and other infrastructure (Note M).....	15,088,224	1,745,075
TOTAL ASSETS	<u>27,512,425</u>	<u>5,168,708</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Accounts payable.....	39,147	
Due to other governmental units.....	3,240,343	1,094,474
Unearned revenue.....	1,016,278	1,469,158
Long-term debt (Note M).....	219,813	248,498
TOTAL LIABILITIES	4,515,581	2,812,130
<u>NET ASSETS</u>		
Investment in capital assets-net of related debt.....	21,057,390	1,745,075
Restricted for programs.....	1,939,454	611,503
TOTAL NET ASSETS	<u>\$ 22,996,844</u>	<u>\$ 2,356,578</u>

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

<u>TIFA 86-D</u>	<u>Brownfield Authority</u>	<u>Economic Development Corporation</u>	<u>Total</u>
\$ 3,780,827	\$ 560,458	\$ 10,084	\$ 11,744,601
2,534,822	775,175		5,795,433
2,017,211			7,154,646
			831,731
12,750,346			12,750,346
3,311,813			3,311,813
604,105			17,437,404
<u>24,999,124</u>	<u>1,335,633</u>	<u>10,084</u>	<u>59,025,974</u>
844,047	164,799		\$ 1,047,993
33,766			4,368,583
2,534,822	775,175	1,600	5,797,033
389,107	17,419		874,837
<u>3,801,742</u>	<u>957,393</u>	<u>1,600</u>	<u>12,088,446</u>
18,683,475			41,485,940
2,513,907	378,240	8,484	5,451,588
<u>\$ 21,197,382</u>	<u>\$ 378,240</u>	<u>\$ 8,484</u>	<u>\$ 46,937,528</u>

**STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2005**

CITY OF AUBURN HILLS

Exhibit A-13

<u>COMPONENT UNITS</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
TIFA 85-A.....	\$ 597,662		
TIFA 85-B.....	129,990		
TIFA 86-D.....	522,353		
Brownfield Authority.....	364,380		
Economic Development Corporation.....	175	1,600	
TOTAL COMPONENT UNITS	\$ 1,614,560	\$ 1,600	\$ 0
General revenues			
Taxes.....			
Use of money and property.....			
Transfers in/(out).....			
Total General Revenues, Transfers and Extraordinary Item			
Change in Net Assets			
Net assets - beginning.....			
Net Assets -- Ending			

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

Net (Expense) Revenue and Changes in Net Assets

<u>TIFA 85-A</u>	<u>TIFA 85-B</u>	<u>TIFA 86-D</u>	<u>Brownfield Authority</u>	<u>Economic Development Corporation</u>	<u>Total</u>
\$ (597,662)	\$ (129,990)	\$ (522,353)	\$ (364,380)	\$ 1,425	\$ (597,662) (129,990) (522,353) (364,380) 1,425
<u>(597,662)</u>	<u>(129,990)</u>	<u>(522,353)</u>	<u>(364,380)</u>	<u>1,425</u>	<u>(1,612,960)</u>
\$ 1,595,376	\$ 1,522,616	\$ 2,735,952	\$ 567,681	\$ 36	\$ 6,421,625
129,916	86,997	104,400	16,145	36	337,494
700,000	(1,550,000)	850,000			-
<u>2,425,292</u>	<u>59,613</u>	<u>3,690,352</u>	<u>583,826</u>	<u>36</u>	<u>6,759,119</u>
1,827,630	(70,377)	3,167,999	219,446	1,461	5,146,159
<u>21,169,214</u>	<u>2,426,955</u>	<u>18,029,383</u>	<u>158,794</u>	<u>7,023</u>	<u>41,791,369</u>
<u>\$ 22,996,844</u>	<u>\$ 2,356,578</u>	<u>\$ 21,197,382</u>	<u>\$ 378,240</u>	<u>\$ 8,484</u>	<u>\$ 46,937,528</u>

NOTES TO FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

NOTE A – DESCRIPTION OF CITY OPERATIONS, REPORTING ENTITY, AND FUND TYPES

The City of Auburn Hills was incorporated in 1983 out of the former Pontiac Township. The City covers an area of approximately 17.5 square miles and provides services to its 19,837 residents (2000 U. S. Census of Population) in many areas including police and fire protection, street maintenance, water and sewer services, community enrichment and recreation services, as well as other general governmental functions. The City is governed by an elected, seven-member non-partisan Council. The Council elects one of its members to serve as mayor.

As required by generally accepted accounting principles, these financial statements present the financial position and results of operation of the City of Auburn Hills (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Blended Component Units:

The Auburn Hills Building Authority is a legally separate entity governed by a five-member Board that is appointed entirely by the City Council. It is reported as if it was part of the primary government because its primary purpose is to finance and construct the City's public facilities.

Discretely Presented Component Units:

The following component units are reported within the component unit column in the fund financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

The Tax Increment Finance Authorities (TIFAs) are governed by a seven-member Board. The Board is appointed by the Mayor and confirmed by the City Council. The City can significantly influence the operations of the TIFA Board since the City Council approves the TIFA budgets. The TIFAs were created to finance infrastructure improvements within certain boundaries of the City.

The Brownfield Authority is governed by a five-member Board. The Board is appointed by the Mayor and confirmed by the City Council. Since the City Council appoints the Brownfield Authority, the City can significantly influence the operations of the Authority. The five-member board is comprised of one member of the City Council and four citizens at-large. The Brownfield Authority was created to provide a means for financing remediation of Brownfield (environmentally contaminated) sites within the City.

The Economic Development Corporation (EDC) is governed by a nine-member Board. This Board is appointed by the Mayor and confirmed by the City Council. Accordingly, the City can significantly influence the operations of the Economic Development Corporation. The EDC was created to provide a means and method for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving or expanding within the City. The EDC may issue industrial revenue bonds as a means of providing financing for certain enterprises.

Although no separate financial statements are prepared for the component units, all financial information can be obtained from the City's Finance Department.

NOTE B-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Auburn Hills conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of significant accounting policies used by the City of Auburn Hills.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of

a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and the component units even though the fiduciary fund statements are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, the fiduciary fund and the component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are accounted for using a current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available for use. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. For this purpose, the City considers all revenues to be available if they are collected within 60 days of the end of the fiscal year. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal year. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability. Revenues which are considered measurable, but not available are recorded as a receivable and deferred revenue.

The City reports the following major governmental Funds:

- a. The General Fund is the general operating fund of the City. It is used to account for all financial resources of the City which are not required to be accounted for in other funds.
- b. The Major Streets Fund is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for construction and maintenance of roads designated as major streets in the City.
- c. The Local Streets Fund is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for construction and maintenance of roads designated as local streets in the City.
- d. The Police Fund is used to account for the revenues and expenditures of the City of Auburn Hills Police Department. This fund is financed primarily through a separate millage specifically for Police services.
- e. The Fire fund is used to account for the revenues and expenditures of the City of Auburn Hills Fire Department. This fund is financed primarily through a separate millage specifically for Fire services.
- f. The Brown Road Special Assessment Fund is used to account for the funding and payment of principal and interest on debt issued in 1999 for the paving of Brown Road adjacent to the Auburn Mile Development. Property tax special assessments are made to the business in this development.

Proprietary Funds are used to account for City operations which are similar to those often found in the private sector. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e. net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in net total assets.

The City reports the following major proprietary funds:

- a. The Water Fund accounts for the operations of the City's water department which provides water services to all residents of the City on a user charge basis.
- b. The Sewer Fund accounts for the operations of the City's Sewer Department which provides sewage disposal services to city residents on a user charge basis.

NOTES TO FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

- c. The Fieldstone Golf Club Fund is used to account for the operations of the City's municipal golf course, Fieldstone Golf Club. This fund is funded primarily through user fees charged to individuals using these facilities.

Additionally, the City reports the following fund types:

- a. Internal Service Funds are used to record the financing of services provided by the City to other departments and funds on a cost reimbursement basis.
- b. Two Fiduciary funds: the Agency and Pension Fund. The Agency Fund is used to account for assets held by the City as an agent for other governments or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement or results of operations. Beginning in 2004, the Pension Fund was changed over from a third party managed activity to a City held and controlled trust. There is a Pension Board made up of nine members that administer the Pension Plan. The Pension trust holds the resources for the members and beneficiaries of the defined benefit pension plan. There are no restrictions on the assets to pay any particular member or beneficiary.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as non-operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations of the City are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31 and the related property tax becomes a lien on December 1 of the following year. The related property taxes are billed December 1 with the final collection date of February 28 before the delinquent taxes are turned over to the County for collection and payoff. Property taxes to finance 2005 operations were assessed December 31, 2003, levied on December 1, 2004, and substantially collected in January and February, 2005. See Note K for further information.

Property taxes levied December 1, 2005 will be used to finance the operations in 2006. As such, these taxes are recorded as deferred revenue in each respective fund at December 31, 2005.

Cash Equivalents

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments

Investments are recorded at fair value, based on quoted market prices.

Receivables and Payables

In general, on the fund based statements, outstanding balances between funds are reported as "due to/from other funds." However, any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown net of allowance for uncollectible amounts.

Inventories and Prepaid Items

Inventories in the business-type activities are valued at cost, on a first-in, first-out basis which approximates market value. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future years and are recorded as prepaid items in both government-wide and fund financial statements.

Fixed Assets

Fixed assets, which include property, plant, equipment, infrastructure assets (e.g. roads, and storm water drains), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if the original purchase price is not available. Donated capital assets are recorded at estimated fair market value at the time of donation.

Depreciation on property and equipment is computed using the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are:

Water and Sewer Mains -----	50-100 years
Vehicles -----	3-5 years
Office Furniture and Equipment -----	3-5 years
Machinery and Equipment -----	5 years
Buildings and Improvements -----	30-35 years
Roads -----	40 years
Storm Drains -----	50 years

Long-Term Liabilities

In the government-wide financial statements and the fund financial statements for the proprietary fund types, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities, business type activities or proprietary fund type statement of net assets.

In the governmental fund financial statements, the face amount of the debt issued is reported as other financing sources in the period when the debt was issued. Bond premiums received on debt issuances are reported as other financing sources while bond discounts are reported as other financing uses in the period that the bonds were issued. Issuance costs are reported in the same period as the bond issuance and are reported as debt service expenditures.

Employee Vacation and Sick Time

City employees are granted vacation in varying amounts based on length of service. Vacation pay is accrued and fully vested when earned; upon termination, employees are paid accumulated vacation at full rates to a limit of their maximum accrual which varies by bargaining unit.

All employees accrue one day of sick time monthly. This sick time is fully vested when earned. Any accrued amount in excess of 240 hours is paid at full rates at the end of each year. Upon termination, employees are paid for their remaining sick time at full rates.

The liability for this accrued sick and vacation time is reported in the Accrued Sick and Vacation Internal Service Fund.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTES TO FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

Restricted Net Assets:

Assets which are restricted net assets for specified uses by bond debt requirements, grant provisions, or other external requirements are classified as restricted net assets. Following is a list of restricted net assets:

Police	\$ 14,255,234
Fire	1,877,801
Brown Road Special Assessments	5,207,167
Tree Ordinance	466,715
Drug Forfeiture	42,539
Police Grants and Donations	5,816
Metro Act	75,088
Library Expansion	<u>161,102</u>
Total Restricted Assets	<u>\$ 22,091,462</u>

In addition, the \$5,451,588 restricted net assets of the component units are restricted to be spent in accordance with the respective TIFA, Brownfield and EDC plan documents

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

NOTE C-CASH AND CASH EQUIVALENTS

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. To the extent that cash from various funds has been pooled in an investment, related investment income is allocated to each fund based on relative participation in the pool.

The Pension Trust Fund is authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small business, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated five banks for the deposit of local unit funds. The investment policy adopted by the commission in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to three types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's investment policy restricts depository accounts to federally insured institutions located within the state of Michigan (consistent with state law). At year end, the City had \$19,210,785 of bank deposits (certificates of deposit, checking and savings

accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy restricts the average maturity of investments to two (2) years with the exception of long-term debt or capital fund investments which may be invested in securities matched to cash flow requirements with a maximum maturity of five (5) years. The City's pension investment policy restricts cash equivalents to a dollar-weighted maturity of ninety (90) days or less. At year end, the City's investments have the following range of maturity dates:

Government Unit	Fair Value	Maturity (Years)			
		< 1	1 - 5	6 - 10	> 10
Primary Government	Pooled Funds	\$ 47,042,578			
Component Units	Pooled Funds	12,293,667			
Trust & Agency	Pooled Funds	20,181,933			
Pension	Pooled Funds	126,387			
	Pooled Funds				\$ 7,759,676 (weighted maturity of 5.11 years)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City's general investment policy further limits investments to: commercial paper to the highest rating (A-1/P-1); bankers' acceptances whose long-term debt rating is at least an A; obligations of this state or its political subdivisions to the highest rating (A-1/P-1); pooled funds with a rating of at least an A.

The City's pension funds investment policy requires the fixed income managers to have no more than 15% of the portfolio in non-investment grade securities (BB to CCC rated) with at least 80% of the non-investment grade consisting of B-rated or higher securities. As of December 31, 2005, approximately 3% of the pension fund fixed income portfolio was invested in non-investment grade securities.

As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Government Unit	Investment Type	Rating	Fair Value	Rating Agency
Primary Government	Pooled Funds	Aa	\$ 34,380,526	Moody's
Component Units	Pooled Funds	Aa	9,715,317	Moody's
Trust & Agency	Pooled Funds	Aa	15,803,600	Moody's
Pension	Pooled Funds	A1	126,387	S & P
	Pooled Funds	AAA	7,759,676	S & P

NOTE D-DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Property Taxes -----		\$20,229,314
Special Assessments -----	\$ 5,096,000	
Other -----	267,318	-
Total Deferred Revenue -----	\$ 5,363,318	\$ 20,229,314

NOTES TO FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

NOTE E-FIXED ASSETS

Capital asset activity of the City's governmental and business-type activities was as follows:

Governmental Activities	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005
Capital assets not being depreciated:				
Land & Improvements -----	\$ 4,980,419	\$ 24,154	\$ 0	\$ 5,004,573
Capital assets being depreciated:				
Office Furniture & Equipment-----	878,609			878,609
Machinery & Equipment-----	2,412,282	642,120		3,054,402
Vehicles -----	5,267,700	170,352	96,195	5,341,857
Buildings & Improvements -----	14,453,749	463,500		14,917,249
Storm Drains -----	5,631,369	246,955		5,878,324
Roads -----	61,197,156	427,971		61,625,127
Subtotal -----	89,840,865	1,950,898	96,195	91,695,568
Accumulated Depreciation:				
Office Furniture & Equipment-----	672,098	101,485		773,583
Machinery & Equipment-----	1,586,544	353,034		1,939,578
Vehicles -----	3,983,346	561,942	94,234	4,451,054
Buildings & Improvements -----	4,070,668	386,470		4,457,138
Storm Drains -----	396,222	115,516		511,738
Roads -----	12,398,443	1,534,040		13,932,483
Subtotal -----	23,107,321	3,052,487	94,234	26,065,574
Net capital assets being depreciated	66,733,544	(1,101,589)	1,961	65,629,994
Net capital assets	\$ 71,713,963	\$ (1,077,435)	\$ 1,961	\$ 70,634,567
Business-Type Activities	Balance at Jan. 1, 2005	Additions	Deletions	Balance at Dec. 31, 2005
Capital assets not being depreciated:				
Land -----	\$ 8,314,199			\$ 8,314,199
Land Improvements -----	83,297			83,297
Construction-in-Progress -----		\$ 1,997,700		1,997,700
Subtotal -----	8,397,496	1,997,700		10,395,196
Capital assets being depreciated:				
Water & Sewer Mains -----	59,708,320	286,883		59,995,203
Machinery & Equipment-----	2,559,437	83,152		2,642,589
Buildings and Improvements -----	7,880,085			7,880,085
Vehicles -----	847,430	63,841	\$ 36,050	875,221
Subtotal -----	70,995,272	433,876	36,050	71,393,098
Accumulated Depreciation:				
Water & Sewer Mains -----	8,475,707	595,394		9,071,101
Machinery & Equipment-----	1,638,983	335,571		1,974,554
Buildings and Improvements -----	1,345,307	262,670		1,607,977
Vehicles -----	571,884	139,762		676,331
Subtotal -----	12,031,881	1,333,397	35,315	13,329,963

	Balance at Jan. 1, 2005	Additions	Deletions	Balance at Dec. 31, 2005
Business-Type Activities				
Net capital assets being depreciated	58,963,391	(899,521)	735	58,063,135
Net capital assets	<u>\$ 67,360,887</u>	<u>\$ 1,098,179</u>	<u>\$ 735</u>	<u>\$ 68,458,331</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities

Management and Planning-----	\$ 10,378
Public Safety -----	470,388
Streets, highways & public improvements-----	1,969,159
Community and economic development-----	55,555
General support -----	95,848
Internal Service -----	451,159
Total governmental activities-----	<u>3,052,487</u>

Business-Type Activities

Water -----	568,026
Sewer -----	326,576
Fieldstone Golf Club-----	263,571
Internal Service -----	175,224
Total business-type activities -----	<u>1,333,397</u>

Total Depreciation Expenses \$ 4,385,884

NOTE F-LONG-TERM DEBT (including current portions)

Long-term debt of the City is as follows:

	Balance Jan. 1, 2005	Additions	Reductions	Balance Dec. 31, 2005	Due Within One Year
Governmental Activities:					
5.5% to 6.0% Library Improvement Bonds, Issued 12/1/94, Original Issue Amount- \$3,600,000 -----	\$945,000		\$(450,000)	\$495,000	\$495,000
4.6% to 6.0%, John E. Olsen Drain Project, Issued 7/1/96, Original Issue Amount- \$950,000 ⁽²⁾ -----	725,000		(50,000)	675,000	50,000
10.25%, Land Contract for Land Purchase, Issued 6/30/96, Original Issue Amount- \$150,000 ⁽³⁾ -----	33,192		(21,563)	11,629	11,629
4.5% to 5.5% Special Assessment Bonds, Issued 12/1/1999, Original Issue Amount- \$7,250,000 ⁽¹⁾ -----	5,500,000		(425,000)	5,075,000	450,000
Tax Tribunal Cases ⁽⁴⁾ -----	1,373,439	738,024	(816,519)	1,294,944	
Total Governmental Activities -----	<u>8,576,631</u>	<u>738,024</u>	<u>(1,763,082)</u>	<u>7,551,573</u>	<u>1,006,629</u>

NOTES TO FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

	<u>Balance Jan. 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Dec. 31, 2005</u>	<u>Due Within One Year</u>
Business-Type Activities					
10.25%, Land Contract for Land Purchase, Issued 6/30/96, Original Issue Amount- \$250,000 ⁽³⁾ -----	55,319		(35,939)	19,380	19,380
5.5%, City of Auburn Hills Building Authority Bonds, Issued 1/31/96, Original Issue Amount-\$16,000,000-----	550,000		(550,000)	0	
3.45% to 5.0%, City of Auburn Hills Building Authority Bonds, Issued 4/28/99, Original Issue Amount-\$14,900,000-----	13,950,000		(130,000)	13,820,000	765,000
Total Business-Type Activities-----	14,555,319		(715,939)	13,839,380	784,380
Grand Total-All Primary Government Long-Term Debt (Including Current Portion)-----	\$23,131,949	\$738,024	\$ (2,479,021)	\$21,390,953	\$1,791,009

⁽¹⁾ The special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed, at least in part, for the cost of the improvements. At December 31, 2005, the City has \$195,167 available in the Debt Service Funds for repayment of these bonds. In addition, there is \$5,012,000 of special assessments receivable in the future. Under Michigan law, the City is secondarily liable for payment of these bonds.

⁽²⁾ The Olsen Drain project debt payment is recorded in the Storm Water Management Capital Project Fund and is funded using general operating funds, which are transferred from the General Fund.

⁽³⁾ These amounts represent the City liability of a land contract related to the purchase of land from an individual in 1997. The General Fund and the Fieldstone Golf Club enterprise fund have both shared in the cost of this acquisition, which was used to provide additional land for the Fieldstone Golf Club.

⁽⁴⁾ Tax Tribunal Cases represents the amount of City property tax assessments which have been contested and are subject to repayment contingent upon the determination of the Michigan Tax Tribunal.

Defeased Debt-In 1999, the Building Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the general purpose financial statements. At December 31, 2005, \$13,425,000 of bonds outstanding is considered defeased.

The annual requirements to pay principal and interest on the obligations (excluding tax tribunal cases) outstanding as of December 31, 2005 are shown below:

Governmental Activities:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-----	\$ 1,006,629	\$ 315,099	\$ 1,321,728
2007-----	525,000	275,125	800,125
2008-----	550,000	248,700	798,700
2009-----	575,000	220,975	795,975
2010-----	600,000	191,950	791,950
2011-2015-----	2,925,000	432,888	3,357,888
2016-2017-----	75,000	2,250	77,250
TOTALS-----	6,256,629	1,686,987	7,943,616

Business-Type Activities:

2006-----	784,380	642,963	1,427,343
2007-----	885,000	610,468	1,495,468
2008-----	790,000	572,855	1,362,855
2009-----	860,000	538,885	1,398,885
2010-----	895,000	501,045	1,396,045

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011-2015 -----	6,565,000	1,725,806	8,290,806
2016-2017 -----	<u>3,060,000</u>	<u>231,000</u>	<u>3,291,000</u>
TOTALS -----	<u>13,839,380</u>	<u>4,823,022</u>	<u>18,662,402</u>
Total Primary Government:			
2006 -----	1,791,009	958,062	2,749,071
2007 -----	1,410,000	885,593	2,295,593
2008 -----	1,340,000	821,555	2,161,555
2009 -----	1,435,000	759,860	2,194,860
2010 -----	1,495,000	692,995	2,187,995
2011-2015 -----	9,490,000	2,158,694	11,648,694
2016-2017 -----	<u>3,135,000</u>	<u>233,250</u>	<u>3,368,250</u>
TOTALS -----	<u>\$20,096,009</u>	<u>\$6,510,009</u>	<u>\$26,606,018</u>

By statute, the City general obligation debt is restricted to 10% of the equalized value of all property in the City. Certain obligations, such as special assessment debt, are not subject to this limitation. At December 31, 2005, the City's debt limit amounted to \$282,302,043 and indebtedness subject to the limitation aggregated \$14,990,000.

NOTE G-INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Trust & Agency	\$ 930,093
Non-major governmental funds	General Fund	12,234
	Major Streets	445
	Local Streets	257
	Police Fund	9,597
	Fire Fund	1,900
	Non-major governmental funds	83
	Internal Service Fund	339
	Water and Sewer Funds	1,234
	Fieldstone Golf Club	<u>104</u>
	Total Non-major governmental funds	26,193
Sewer	Fieldstone Golf Club	1,700,170
Water	Fieldstone Golf Club	563,816
Accrued Sick and Vacation Fund	General Fund	403,677
	Major Streets	32,364
	Local Streets	16,908
	Police Fund	597,654
	Fire Fund	163,710
	Internal Service Fund	30,623
	Non-major governmental funds	10,793
	Water and Sewer Funds	101,624
	Fieldstone Golf Club	<u>15,822</u>
	Total Accrued Sick and Vacation fund	<u>1,373,175</u>
Total		<u>\$4,593,447</u>

These balances result from the time lag between dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

NOTES TO FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

NOTE H-INTERFUND TRANSFERS

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Amount</u>
General Fund	Major Streets	\$ 200,000
	Local Streets	500,000
	Fieldstone Golf Club	241,735
	Non-Major Governmental Funds	<u>1,645,000</u>
	Total General Fund	2,586,735
Non-Major Governmental Funds	Non-Major Governmental Funds	1,382,994
Major Streets	Water and Sewer Funds	65,052
Water and Sewer Fund	Fieldstone Golf Club	241,735
Fire Fund	Fleet Fund	<u>162,820</u>
Total		<u>\$ 4,439,336</u>

The transfers from the General Fund to the Major and Local Street Funds were to supplement the Act 51 resources provided by the State of Michigan for the maintenance of major and local roads (\$200,000 and \$500,000 respectively). The transfers to the non-major governmental funds were to provide funds for park improvements projects (\$150,000), to provide funds for sidewalk maintenance (\$125,000), to provide funds for drainage projects (\$370,000), and to provide for funds for street construction projects (\$1,000,000).

The transfers to the non-major governmental funds represent transfers from the Wayne-Oakland Disposal Fund to the storm water fund (\$125,000) and to fund the street improvement fund (\$1,257,994) for street construction projects.

Not shown in the City transfers above were transfers between component units. The TIFA B fund transferred (\$1,550,000) to the TIFA A (\$900,000) and to the TIFA D (\$650,000). The TIFA A fund transferred to the TIFA D (\$200,000).

NOTE I-RETIREMENT PLANS

DEFINED BENEFIT PLAN

Plan Description-The City contributes to a single-employer defined benefit pension plan. This plan was available to all full-time employees hired prior to 1998, but is no longer available to new employees. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The plan is administered through the City of Auburn Hills Pension Board. Due to its nature, the plan does not issue an annual financial statement, either as a stand-alone financial report, or by inclusion in the report of a public employee retirement system or another entity.

Funding Policy-The obligation to contribute to and maintain the system for these employees was established by negotiation with three collective bargaining units. The plan required a contribution of 35.8% of gross wages for 2005.

Annual Pension Cost-For the year ended December 31, 2005, the City's annual pension cost of \$1,064,358 was equal to the City's required contribution of \$1,670,414, less interest of \$606,056 on the net pension asset. The City's actual contribution for the year ended December 31, 2005 was \$1,577,269. The annual required contribution was determined as part of an actuarial valuation at January 1, 2004, using the individual entry age normal cost method. Significant actuarial assumptions used include (a) a 7.5% investment rate of return, (b) projected salary increase of 5% per year compounded annually and (c) postretirement benefit increases of 5% per year where appropriate. Both (a) and (b) include an inflation component of 2.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 14 years.

Three year trend information is as follows:

	December 31, 2005	December 31, 2004	December 31, 2003
Annual Pension Cost-----	\$ 1,064,358	1,196,676	1,042,310
Percentage of Annual Pension Cost Contributed-----	148.2%	173.8%	140.8%
Net Pension Asset -----	(8,593,662)	(8,080,751)	(7,197,699)

	Actuarial Valuation		
	January 1, 2005	January 1, 2004	January 1, 2003
Actuarial Value of Assets-----	\$21,163,078	\$18,229,129	\$14,199,574
Actuarial Accrued Liability (Entry Age) -----	30,440,335	30,459,067	27,723,143
Unfunded Actuarial Accrued Liability-----	9,277,257	12,229,938	13,523,569
Funded Ratio -----	69.5%	59.8%	51.2%
Covered Payroll-----	4,333,426	4,666,254	4,408,490
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll -----	214.1%	262.1%	306.8%

For the year ended December 31, 2005, the City's annual pension cost and net pension asset for the current year is shown:

Annual Required Contribution -----	\$1,670,414
Interest on Net Pension Asset -----	(606,056)
Annual Pension Cost-----	1,064,358
Contributions Made-----	(1,577,269)
Increase in Net Pension Asset-----	512,911
Net Pension Asset Beginning of the Year -----	(8,080,751)
Net Pension Asset End of the Year -----	(\$8,593,662)

DEFINED CONTRIBUTION PLAN

The City established a defined contribution plan in 1998 to provide an alternative to the defined benefit plan. The International City Managers Association (ICMA) administers the plan, and the City Council has authority over plan provisions and contribution requirements. The defined contribution pension plan is the only plan available to employees hired after January 1, 2000. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. At December 31, 2005, there were 171 members. The City is required to contribute between 9% and 12% of total salaries. Employees may contribute up to 100% of their salaries not to exceed amounts limited by statute. In accordance with these requirements, the City contributed \$625,978 during the current year and employees contributed \$330,084. Employees are vested after 5 years of service. Plan provisions and contribution requirements are established by the City Council and collective bargaining and may be amended.

POST-EMPLOYMENT BENEFITS

The City provides health care benefits to former City Council members and retired full-time City employees in accordance with labor contracts and personnel policies. Currently 56 people are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due. During 2005, the amount expended for post-employment benefits was \$409,074.

Beginning in 1997, the City started a formal method to pre-fund this growing liability. An actuarial valuation of the accrued liability for this benefit was first done for the period ending December 31, 1997. Beginning in 1999, the actuarial recommended percentage of payroll was contributed to the Retirees Health Care fund to assure funding for this benefit will be available in future years. This fund has a fund balance of \$2,550,127 as of December 31, 2005. Total contributions of \$884,394 were made to this fund in 2005.

Effective December 31, 2008 the Governmental Account Standards Board Statement 45 will require government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The City of Auburn Hills has been accruing for postretirement benefits since 1999. An actuarial determined percent of the employee's payroll is expensed and transferred to a Retiree Health Benefit fund each payroll.

NOTES TO FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

NOTE J-RISK MANAGEMENT, CONTINGENCIES, AND COMMITMENTS

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for most of these potential risks. In 2004, the City became self insured for property damage to City vehicles under \$75,000. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past five years.

Under provisions of a contractual agreement signed in 1995 between the City and the Cardell Corporation, the City received a cash advance during 2005 in the amount of \$102,382 to provide operating funds for the Fieldstone Golf Club Fund. A total of \$2,036,960 in cash advances have been received from the Cardell Corporation under the provisions of this contractual agreement. Repayment of this advance is only required when the Fieldstone Golf Club Fund reaches a specified cash balance. Because repayment of this advance is required only after the Fieldstone Golf Club Fund reaches specific cash balance levels, these advances have been recorded as revenue in the Fieldstone Golf Club Fund.

The City is aware of several asserted claims. It is the opinion of the City that any material future liability arising from these claims would be within the limits of the City's insurance coverage. No provision has been made in the accompanying basic financial statements for potential liability, if any, that may arise from these suits.

During 2003, the State of Michigan asserted a claim for a refund of school taxes captured for Tax Increment Financing Authority (TIFA) purposes. This issue has not been settled. It is the City's belief that the majority of the funds were captured and spent in accordance with all applicable laws and regulations regarding tax increment financing. To be conservative, the City has recorded a liability of \$4,368,583 to cover any future reimbursement to the State of Michigan.

NOTE K-PROPERTY TAXES

The City property tax is levied each December 1 on the taxable valuation of property located in the City as of the preceding December 31. On December 31, the property tax attachment is an enforceable lien on property and is payable by the last day of the next February following. Taxable values are established annually by the City and are equalized by the County. The 2004 taxable valuation of the City totaled approximately \$2,396 million of which approximately \$716 million is captured by the Tax Increment Financing Authority (TIFA) and \$25.6 million by the Brownfield Authority. The City property tax levy for 2004 (which was collected primarily in 2005) was composed of the following components:

<u>Levy Purpose</u>	<u>Millage Rate</u>	<u>Maximum Allowable Millage Rate</u>	<u>Tax Revenue</u>
General Operating -----	2.1125	2.1125	\$ 4,040,628
Fire Department -----	1.7604	1.7604	3,072,170
Police Department -----	5.9857	5.9857	10,446,068
Library -----	.7041	.7041	1,225,045
Library Expansion Debt Millage -----	.2300	1.0000	404,601
Captured Property Taxes -----			<u>6,572,137</u>
Total City Property Tax Levy -----	<u>10.7927</u>	<u>N/A</u>	<u>\$25,760,649</u>

By agreement with Oakland County, the County purchases at face value the real property taxes receivable returned delinquent each March 1st. As a result the City receives 100% of real property taxes levied for the year regardless of delinquencies. The County does not purchase the delinquent personal property taxes. However, the City has a number of ways to effect collection of delinquent personal property taxes.

The amounts are recognized in the respective general, special revenue, and debt service funds as property tax revenue.

NOTE L-CONSTRUCTION CODE FEES

The City oversees building construction, in accordance with the State's construction code act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and cumulative shortfall since January 1, 2000 is presented on the following page:

Shortfall at December 31, 2004-----	(\$ 2,307,839)
Building Permit Revenue -----	563,182
Related Expenses:	
Direct Costs (Building & Community Development) -----	1,228,390
Estimated Indirect Costs -----	141,231
Total Construction Code Expenditures-----	<u>1,369,621</u>
Cumulative Shortfall at December 31, 2005	<u>(\$ 3,114,278)</u>

NOTE M-COMPONENT UNIT DISCLOSURES

The City of Auburn Hills has five component units. Three tax increment financing authorities: TIFA A, TIFA B, and TIFA D, the Brownfield Authority and the Economic Development Corporation. The financial information for the component units is found in exhibit A-12 and exhibit A-13.

Unearned Revenue

The unearned revenue represents property taxes levied in December 2005 that will be recognized as revenue in 2006.

Cash and Cash Equivalents

The cash and cash equivalents of the City's components units reflected in the financial statement consist of deposits, certificates of deposits, and bank investment pools and are shown in more detail in Note C. The bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool shares. The investments are not categorized because they are not evidenced by securities that exist in physical or book entry form.

Long-Term Debt

The long-term debt for the component units of the City of Auburn Hills is presented below:

	<u>Balance</u> <u>Jan. 1, 2005</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>Dec. 31, 2005</u>	<u>Due Within</u> <u>One Year</u>
Tax Tribunal Cases-----	\$ 903,044	\$ (28,207)	\$874,837	\$ 0

No Commitment Debt

Excluded from the component unit Long-Term Debt are revenue bonds issued by the Economic Development Corporation to acquire and lease property to third parties. The revenue bonds issued are payable solely from the net revenue derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the City's financial statements. As of December 31, 2005, there were 5 series of Economic Development Bonds outstanding. The aggregate principal amount outstanding could not be determined. However, their original issue amounts totaled \$16,850,000.

NOTES TO FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

Property and Equipment:

The following table summarizes the changes in the fixed assets of the component units:

	<u>Balance Jan. 1, 2005</u>	<u>Additions</u>	<u>Deletions & Adjustments</u>	<u>Balance Dec. 31, 2005</u>
Capital assets not being depreciated:				
TIFA 85-A (Land) -----	\$ 4,332,473	\$ 500,206		\$ 5,137,435
TIFA 86-D (Land) -----	2,017,211			2,017,211
TIFA 86-D (Construction in Progress) -----	<u>3,616,569</u>		<u>304,756</u>	<u>3,311,813</u>
Subtotal -----	9,966,253	500,206	304,756	10,466,459
Capital assets being depreciated:				
TIFA 85-A ((Land Improvements) -----	307,724	561,114		868,838
TIFA 85-A (Roads) -----	16,777,320	0		16,777,320
TIFA 86-B (Roads) -----	1,904,978	0		1,904,978
TIFA 86-D (Roads) -----	645,105	0		645,105
TIFA 86-D (Buildings & Improvements) -----	<u>9,845,867</u>	<u>3,813,663</u>		<u>13,659,530</u>
Subtotal -----	<u>29,480,994</u>	<u>4,374,777</u>	<u>307,756</u>	<u>33,855,771</u>
<u>Accumulated depreciation:</u>	<u>Balance Jan. 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2005</u>
TIFA 85-A (Land Improvements) -----	\$ 7,693	\$ 29,414		\$ 37,107
TIFA 85-A (Roads) -----	1,269,663	419,433		1,689,096
TIFA 86-B (Roads) -----	112,279	47,624		159,903
TIFA 86-D (Roads) -----	24,872	16,128		41,000
TIFA 86-D (Buildings & Improvements) -----	<u>615,367</u>	<u>293,817</u>		<u>909,184</u>
Subtotal -----	<u>2,029,874</u>	<u>806,416</u>	<u>0</u>	<u>2,836,290</u>
Net capital assets being depreciated -----	<u>27,451,120</u>	<u>3,568,361</u>	<u>0</u>	<u>31,019,481</u>
Net capital assets -----	<u>\$ 37,417,373</u>	<u>\$ 4,373,323</u>	<u>\$ 307,756</u>	<u>\$ 41,485,940</u>

The City of Auburn Hills had active construction projects at the end of the 2005. These projects include a new Community Center Building and the Phase II Renovation to the City Hall facility. At year-end, the City's commitments with contractors are as follows:

	<u>Spent To Date</u>	<u>Remaining Commitment</u>
Community Center Building -----	\$ 3,197,419	\$ 2,302,581
City Hall Phase II Renovation -----	114,394	614,292

**REQUIRED
SUPPLEMENTARY INFORMATION**

**CITY OF AUBURN HILLS EMPLOYEE PENSION PLAN
ANALYSIS OF FUNDING PROGRESS
FOR THE YEAR ENDED DECEMBER 31, 2005**

CITY OF AUBURN HILLS

Exhibit B-1

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll (b-a)/c
12/31/04	\$ 21,163,078	\$ 30,440,335	\$ 9,277,257	69.5%	\$ 4,333,426	214.1%
12/31/03	18,229,129	30,459,067	12,229,938	59.8%	4,666,254	262.1%
12/31/02	14,199,574	27,723,143	13,523,569	51.2%	4,408,490	306.8%
12/31/01	15,243,527	26,007,423	10,763,896	58.6%	4,524,623	237.9%
12/31/00	15,424,423	22,637,823	7,213,400	68.1%	4,874,253	148.0%
12/31/99	16,975,974	21,450,883	4,474,909	79.1%	4,642,146	96.4%
12/31/98	14,826,944	18,254,045	3,427,101	81.2%	4,382,998	78.2%
12/31/97	12,827,577	16,784,386	3,956,809	76.4%	4,835,933	81.8%
12/31/96	9,550,565	13,511,315	3,960,750	70.7%	4,611,476	85.9%

See Exhibit A-14, Notes to Financial Statements

**CITY OF AUBURN HILLS EMPLOYEE PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Exhibit B-2

CITY OF AUBURN HILLS

<u>Payments Fiscal Year Ending</u>	<u>Valuation Date</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
12/31/2005	1/1/2004	\$ 1,670,414	94.4%
12/31/2004	1/1/2003	1,736,504	109.3%
12/31/2003	1/1/2002	1,591,762	57.4%
12/31/2002	1/1/2001	1,125,465	78.1%
12/31/2001	1/1/2000	889,899	85.5%
12/31/2000	1/1/1999	723,731	104.3%
12/31/1999	1/1/1998	635,925	204.7%
12/31/1998	1/1/1997	573,760	846.6%
12/31/1997	1/1/1996	608,619	256.3%

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2004, the latest actuarial valuation, follows:

Actuarial Cost Method.....	Individual Entry Age
Amortization Method.....	Level Percent of Payroll, Closed
Remaining Amortization Period.....	14 Years
Asset Valuation Method.....	Market Value
Actuarial Assumptions:	
Investment Return.....	7.50%
Projected Salary Increases.....	5.00%
Cost of Living Adjustments.....	5.00% For eligible members
Inflation.....	5.00%

See Exhibit A-14, Notes to Financial Statements

**MAJOR
FUNDS**

MAJOR FUNDS

General Fund-The General Fund is the general operating fund of the City. It is used to account for all financial resources of the City which are not required to be accounted for in other funds.

Major Streets-This fund is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for construction and maintenance of roads designated as major streets in the City.

Local Streets-This fund is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for construction and maintenance of roads designated as local streets in the City.

Police-The Police fund is used to account for the revenues and expenditures of the City of Auburn Hills Police Department. This fund is financed primarily through a separate millage specifically for Police services.

Fire-The Fire fund is used to account for the revenues and expenditures of the City of Auburn Hills Fire Department. This fund is financed primarily through a separate millage specifically for Fire Department services.

Brown Road Special Assessment Debt-This fund is used to account for the funding and payment of principal and interest on debt issued in 1999 for the paving of Brown Road adjacent to the Auburn Mile Development. Property tax special assessments are made to the businesses in this development

**SCHEDULE OF REVENUE AND TRANSFERS IN
BUDGET AND ACTUAL -- GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

CITY OF AUBURN HILLS

Exhibit B-3

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Amended Budget</u>
<u>OPERATING REVENUE</u>				
<u>TAXES</u>				
Current property taxes.....	\$ 3,862,940	\$ 3,862,940	\$ 4,040,628	\$ 177,688
Tax collection fee.....	850,000	850,000	971,987	121,987
TOTALS	4,712,940	4,712,940	5,012,615	299,675
<u>LICENSES AND PERMITS</u>				
Building permits.....	375,000	375,000	355,056	(19,944)
Electrical permits.....	82,500	82,500	77,989	(4,511)
Heat, vent, & AC permits.....	102,500	102,500	85,023	(17,477)
Plumbing permits.....	70,000	70,000	45,115	(24,885)
Business licenses and permits	30,000	30,000	14,038	(15,962)
Other licenses and permits.....	42,450	42,450	30,730	(11,720)
TOTALS	702,450	702,450	607,951	(94,499)
<u>CHARGES FOR SERVICES</u>				
Engineering services.....	185,000	185,000	241,702	56,702
Plan review fees.....	190,000	190,000	173,511	(16,489)
Recreation programs and activities.....	45,000	45,000	63,276	18,276
Senior citizen programs and activities.....	99,500	99,500	119,359	19,859
TOTALS	519,500	519,500	597,848	78,348
<u>STATE SOURCES</u>				
SMART (transportation) grant.....	41,878	41,878	41,878	0
State aid grant.....	50,000	50,000	33,850	(16,150)
State shared revenue sharing.....	1,640,000	1,640,000	1,596,021	(43,979)
TOTALS	1,731,878	1,731,878	1,671,749	(60,129)
<u>USE OF MONEY & PROPERTY</u>				
Interest revenue.....	195,000	195,000	878,601	683,601
Sale of fixed assets.....	223,840	223,840	0	(223,840)
Building rental.....	569,923	569,923	569,923	0
TOTALS	988,763	988,763	1,448,524	459,761
<u>ADMINISTRATIVE & INTERFUND CHARGES</u>				
Administrative charges.....	977,998	977,998	977,998	0
Interfund charges.....	2,221,073	2,221,073	2,221,073	0
TOTALS	3,199,071	3,199,071	3,199,071	0
<u>OTHER REVENUE</u>				
	369,950	369,950	355,253	(14,697)
TOTAL REVENUE	\$ 12,224,552	\$ 12,224,552	\$ 12,893,011	\$ 668,459

**SCHEDULE OF EXPENDITURES AND APPROPRIATIONS
BUDGET AND ACTUAL -- GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

CITY OF AUBURN HILLS

EXHIBIT B-4

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Amended Budget</u>
<u>LEGISLATIVE</u>				
City Council.....	\$ 267,792	\$ 267,792	\$ 225,274	\$ (42,518)
<u>MANAGEMENT & PLANNING</u>				
Assessor.....	1,053,049	1,053,049	788,471	(264,578)
City Clerk.....	115,392	115,392	111,130	(4,262)
City Clerk-Elections.....	312,762	312,762	303,442	(9,320)
City Manager.....	480,336	480,336	473,357	(6,979)
Finance.....	398,431	398,431	381,106	(17,325)
General Administration.....	728,050	728,050	346,886	(381,164)
Grant Expenditures.....	41,878	41,878	43,581	1,703
Pension Board.....	55,600	55,600	45,620	(9,980)
Management Information Systems.....	471,000	471,000	460,298	(10,702)
Treasurer.....	501,808	501,808	412,386	(89,422)
TOTALS	4,158,306	4,158,306	3,366,277	(792,029)
<u>STREETS, HIGHWAYS & PUBLIC IMPROVEMENTS</u>				
Capital Improvements.....	424,050	424,050	401,855	(22,195)
<u>COMMUNITY & ECONOMIC DEVELOPMENT</u>				
Building.....	868,761	868,761	922,486	53,725
Economic Development.....	112,377	112,377	105,782	(6,595)
Community Development.....	325,861	325,861	328,103	2,242
Planning Commission & Zoning Board of Appeals.....	110,070	110,070	72,890	(37,180)
Recreation.....	404,806	404,806	398,006	(6,800)
Senior Citizens.....	385,716	385,716	370,210	(15,506)
TOTALS	2,207,591	2,207,591	2,197,477	(10,114)
<u>GENERAL SUPPORT</u>				
Facilities.....	1,206,132	1,206,132	1,203,483	(2,649)
Parks and Grounds.....	1,605,710	1,605,710	1,479,841	(125,869)
TOTALS	2,811,842	2,811,842	2,683,324	(128,518)
<u>CAPITAL OUTLAY</u>				
Treasurer.....	40,000	40,000	15,158	(24,842)
Facilities.....	195,000	195,000	169,505	(25,495)
Parks and Grounds.....	17,500	17,500	8,655	(8,845)
Capital Improvements.....	22,200	22,200	28,203	6,003
Management Information Systems.....	196,944	196,944	99,197	(97,747)
TOTALS	471,644	471,644	320,718	(150,926)
<u>DEBT SERVICE</u>				
MTT refunds.....	150,000	150,000	0	(150,000)
Principal.....	21,563	21,563	21,563	0
Interest.....	2,591	2,591	2,591	0
TOTALS	174,154	174,154	24,154	(150,000)
TOTAL EXPENDITURES	10,515,379	10,515,379	9,219,079	(1,296,300)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Amended Budget</u>
<u>TRANSFERS</u>				
<u>Special Revenue:</u>				
Major Streets.....	\$ 200,000	\$ 200,000	\$ 200,000	\$ 0
Local Streets.....	500,000	500,000	500,000	0
Fire.....	350,000	350,000	0	(350,000)
Park Improvements.....	150,000	150,000	150,000	0
Sidewalks	125,000	125,000	125,000	0
TOTALS	<u>1,325,000</u>	<u>1,325,000</u>	<u>975,000</u>	<u>(350,000)</u>
 <u>Capital Projects:</u>				
Street Improvement.....	0	0	1,000,000	1,000,000
Storm Water Management.....	370,000	370,000	370,000	0
TOTALS	<u>370,000</u>	<u>370,000</u>	<u>1,370,000</u>	<u>1,000,000</u>
 <u>Proprietary Funds:</u>				
Fieldstone Golf Club.....	0	0	241,735	241,735
TOTALS	<u>0</u>	<u>0</u>	<u>241,735</u>	<u>241,735</u>
 TOTAL TRANSFERS	<u>1,695,000</u>	<u>1,695,000</u>	<u>2,586,735</u>	<u>891,735</u>
 TOTAL EXPENDITURES AND TRANSFERS	<u>\$ 12,210,379</u>	<u>\$ 12,210,379</u>	<u>\$ 11,805,814</u>	<u>\$ (404,565)</u>

**SCHEDULE OF REVENUES AND OTHER SOURCES
BUDGET AND ACTUAL -- OTHER MAJOR FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

CITY OF AUBURN HILLS

EXHIBIT B-5

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Amended Budget</u>
MAJOR STREETS				
State sources.....	\$ 936,000	\$ 936,000	\$ 954,947	\$ 18,947
Use of money and property.....	500	500	12,702	12,202
General fund appropriation.....	200,000	200,000	200,000	0
Other.....		0	240	240
TOTALS	<u>\$ 1,136,500</u>	<u>\$ 1,136,500</u>	<u>\$ 1,167,889</u>	<u>\$ 31,389</u>
LOCAL STREETS				
State sources.....	\$ 297,000	\$ 297,000	\$ 291,115	\$ (5,885)
Use of money and property.....	500	500	2,737	2,237
Other revenues.....	0	0	4,758	4,758
General fund appropriation.....	500,000	500,000	500,000	0
TOTALS	<u>\$ 797,500</u>	<u>\$ 797,500</u>	<u>\$ 798,610</u>	<u>\$ 1,110</u>
POLICE				
Property taxes.....	\$ 10,853,844	\$ 10,853,844	\$ 10,446,068	\$ (407,776)
Licenses and permits.....	15,000	15,000	12,035	(2,965)
Charges for services.....	422,000	422,000	605,568	183,568
Fines and forfeitures.....	260,000	260,000	283,064	23,064
State sources.....	40,100	40,100	54,290	14,190
Use of money and property.....	77,500	77,500	388,721	311,221
Other.....	16,500	16,500	28,923	12,423
TOTALS	<u>\$ 11,684,944</u>	<u>\$ 11,684,944</u>	<u>\$ 11,818,669</u>	<u>\$ 133,725</u>
FIRE				
Property taxes.....	\$ 3,194,421	\$ 3,194,421	\$ 3,072,170	\$ (122,251)
Charges for services.....	146,000	146,000	150,890	4,890
Federal sources.....	0	0	37,944	37,944
Use of money and property.....	15,000	15,000	64,495	49,495
General fund appropriation.....	350,000	350,000	0	(350,000)
Other.....	32,000	32,000	78,627	46,627
TOTALS	<u>\$ 3,737,421</u>	<u>\$ 3,737,421</u>	<u>\$ 3,404,126</u>	<u>\$ (333,295)</u>
BROWN ROAD SPECIAL ASSESSMENT DEBT				
Special assessments.....	\$ 392,000	\$ 392,000	\$ 392,000	\$ 0
Use of money and property.....	313,932	313,932	315,213	1,281
TOTALS	<u>\$ 705,932</u>	<u>\$ 705,932</u>	<u>\$ 707,213</u>	<u>\$ 1,281</u>

**SCHEDULE OF EXPENDITURES AND OTHER USES
BUDGET AND ACTUAL -- OTHER MAJOR FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

CITY OF AUBURN HILLS

EXHIBIT B-6

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Amended Budget</u>
MAJOR STREETS				
Personnel services.....	\$ 209,372	\$ 209,372	\$ 238,991	\$ 29,619
Fringe benefits.....	179,249	179,249	159,672	(19,577)
Supplies and services.....	803,445	803,445	1,017,834	214,389
Transfer to Water fund.....	32,526	32,526	32,526	0
Transfer to Sewer fund.....	32,526	32,526	32,526	0
TOTALS	\$ 1,257,118	\$ 1,257,118	\$ 1,481,549	\$ 224,431
LOCAL STREETS				
Personnel services.....	\$ 145,402	\$ 145,402	\$ 166,605	\$ 21,203
Fringe benefits.....	116,921	116,921	110,547	(6,374)
Supplies and services.....	570,550	570,550	612,990	42,440
TOTALS	\$ 832,873	\$ 832,873	\$ 890,142	\$ 57,269
POLICE				
Personnel services.....	\$ 5,063,530	\$ 5,063,530	\$ 4,730,719	\$ (332,811)
Fringe benefits.....	3,014,664	3,014,664	2,577,673	(436,991)
Supplies and services.....	3,179,810	3,179,810	2,450,899	(728,911)
Capital outlay.....	252,300	252,300	156,186	(96,114)
MTT refunds.....	0	0	0	0
Transfer to Clubhouse Construction.....	0	0	0	0
Transfer to Police Grants/Donations Fund.....	0	0	0	0
Transfer to Retiree Health Care Fund.....	0	0	0	0
TOTALS	\$ 11,510,304	\$ 11,510,304	\$ 9,915,477	\$ (1,594,827)
FIRE				
Personnel services.....	\$ 1,493,124	\$ 1,493,124	\$ 1,354,610	\$ (138,514)
Fringe benefits.....	807,126	807,126	661,311	(145,815)
Supplies and services.....	1,354,066	1,354,066	1,098,347	(255,719)
Capital outlay.....	73,500	73,500	62,181	(11,319)
Transfer to Fleet Management.....	0	0	162,820	162,820
TOTALS	\$ 3,727,816	\$ 3,727,816	\$ 3,339,269	\$ (388,547)
BROWN ROAD SPECIAL ASSESSMENT DEBT				
Other.....	\$ 500	\$ 500	\$ 275	\$ (225)
Debt service:		0		
Principal payments.....	425,000	425,000	425,000	0
Interest payments.....	282,950	282,950	282,950	0
TOTALS	\$ 708,450	\$ 708,450	\$ 708,225	\$ (225)

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

The City employs the following procedures in establishing the budgetary data reflected in the financial statements:

- 1) Prior to the first Monday in August, City Departments, in conjunction with the Finance Office, prepare and submit their proposed operating budgets for the year beginning January 1 to the City Manager. Budgets are prepared for almost all funds of the City including the general fund, special revenue funds, debt service funds, capital project funds, internal service fund, and enterprise funds. No budget is prepared for the agency fund or the Accrued Sick and Vacation Internal Service fund.
- 2) The City Manager compiles and reviews such budget requests and then prepares recommendations and submits them to the Council on or before September 1st of each year.
- 3) A Public Hearing is conducted to obtain taxpayers' comments.
- 4) Not later than the first Monday in November, the budget is legally enacted through Council passage of the budget resolutions.
- 5) After the budget is adopted, any revisions that alter the total expenditures of a department or fund must be approved by the City Council.

The budget is adopted by the City Council on an activity (individual department) basis for the General Fund and at the fund total level for all other funds; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund and other Major Governmental Funds service budgets are included in the required supplementary information. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures or liabilities. The amount of encumbrances outstanding at December 31, 2005 has not been calculated. The current year budget was amended in a legally permissible manner. The amendments included the following fund transfer changes:

Added Transfers:

	<u>Transfer in</u>	<u>Transfer out</u>
General (Capital Improvements)		\$ 1,241,735
Street Improvement Fund	\$ 1,000,000	
Golf Course Fund	483,470	
Fleet Fund	162,820	
Fire Fund		162,820
Sewer Fund		241,735
	<u>1,646,290</u>	<u>1,646,290</u>

Amended Transfers:

	<u>Budgeted</u>	<u>Actual</u>
From Wayne Disposal to Street Improvement Fund	\$ 1,600,000	\$ 1,257,994
From General Fund To Fire Fund	300,000	

Budgets shown were prepared on the same modified accrual basis used to reflect actual results. The budget has been prepared in accordance with generally accepted accounting principles (GAAP), except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)".

Excesses of expenditures over appropriations in individual funds are presented below:

	<u>Excess Expenditures</u>
General Fund	
Building Services	\$ 53,725
Community Development	2,242
Grant Expenditures	1,703
Capital Improvements	6,003
Special Revenue Funds	
Major Streets	224,431
Local Streets	57,269

The special revenue funds, Community Development Block Grant and the capital project fund, Storm Water Management incurred deficit fund balances at the end of 2005. In addition, the major governmental funds, Major Streets and Local Streets also incurred deficit fund balances at the end of 2005. The fund deficits are as follows: Community Development Block Grants (\$45,007), Storm Water Management (\$100,387). These deficits resulted from expenditures being made in advance of reimbursement from Water Management (\$100,387), Major Streets (\$129,508), and Local Streets (\$86,012). These deficits resulted from expenditures being made in advance of reimbursement from the Federal government or State of Michigan. It is expected when reimbursement for the expenditures is received from the governmental agencies, these deficits will be eliminated in 2006.

OTHER
SUPPLEMENTAL INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

**COMBINING BALANCE SHEET -- NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

CITY OF AUBURN HILLS

Exhibit C-1

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and cash equivalents.....	\$ 4,061,816	\$ 161,102	\$ 2,077,972	\$ 6,300,890
Receivables:				
Due from other governmental units.....	45,007			45,007
Due from other funds.....	26,193			26,193
Accounts.....	506			506
Property taxes.....		443,606		443,606
TOTAL ASSETS	<u>4,133,522</u>	<u>604,708</u>	<u>2,077,972</u>	<u>6,816,202</u>
<u>LIABILITIES AND FUND EQUITY (DEFICIT)</u>				
<u>LIABILITIES</u>				
Accounts payable.....	113,596		207,512	321,108
Due to other funds.....			10,876	10,876
Deposits payable.....	221,486			221,486
Deferred revenue.....	45,007	443,606		488,613
TOTAL LIABILITIES	<u>380,089</u>	<u>443,606</u>	<u>218,388</u>	<u>1,042,083</u>
<u>FUND BALANCES (DEFICIT)</u>				
Unreserved:				
Undesignated.....	3,753,433	161,102	1,859,584	5,774,119
TOTAL FUND BALANCES	<u>3,753,433</u>	<u>161,102</u>	<u>1,859,584</u>	<u>5,774,119</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,133,522</u>	<u>\$ 604,708</u>	<u>\$ 2,077,972</u>	<u>\$ 6,816,202</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -- NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

CITY OF AUBURN HILLS

Exhibit C-2

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
REVENUE				
Property taxes.....		\$ 404,601		\$ 404,601
Licenses and permits.....	\$ 640			640
Charges for services.....	884,845			884,845
Fines and forfeitures.....				0
Federal sources.....	41,851			41,851
State sources.....	71,447			71,447
Use of money and property.....	99,929	3,859	6,845	110,633
Other revenue.....	1,592,962		140,613	1,733,575
TOTAL REVENUE	2,691,674	408,460	147,458	3,247,592
EXPENDITURES				
Current operations:				
Management and planning.....	493,110			493,110
Public safety.....	17,996			17,996
Streets, highways, & public improvements.....	206,688	674	248,398	455,760
Community and economic development.....	94,403			94,403
Capital outlay.....	338,672		683,878	1,022,550
Debt service:				
Principal payments.....		450,000	50,000	500,000
Interest.....		43,200	39,825	83,025
TOTAL EXPENDITURES	1,150,869	493,874	1,022,101	2,666,844
REVENUE OVER (UNDER) EXPENDITURES	1,540,805	(85,414)	(874,643)	580,748
OTHER FINANCING SOURCES				
General fund transfers.....	275,000	0	1,370,000	1,645,000
Transfers-in.....		0	1,382,994	1,382,994
Transfers-out.....	(1,382,994)	0	0	(1,382,994)
TOTAL OTHER FINANCING SOURCES	(1,107,994)	0	2,752,994	1,645,000
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	432,811	(85,414)	1,878,351	2,225,748
Fund balances at beginning of year.....	3,320,622	246,516	(18,767)	3,548,371
FUND BALANCES AT END OF YEAR	\$ 3,753,433	\$ 161,102	\$ 1,859,584	\$ 5,774,119

**COMBINING
FINANCIAL STATEMENTS**

SPECIAL REVENUE FUNDS

SPECIAL REVENUE FUNDS

Wayne-Oakland Disposal-This fund is used to account for the receipt and subsequent disbursement of "tipping fees" received from the landfill operator of this landfill located in the City.

Retiree Health Care-This fund is used to account for the fees charged to City Departments as a percentage of payroll to begin pre-funding of employee post-retirement health care costs based on actuarial assumptions.

Community Development Block Grant-This fund is used to account for the grant funds received from the Federal Government through Oakland County for projects benefiting low and moderate income persons or projects defined as having an urgent need.

Park Improvement-This fund is used to account for the revenues and expenditures relating to improvements made to City parks. This fund is primarily funded through State grants combined with General Fund appropriations.

Sidewalk Improvement-This fund is used to account for the revenues and expenditures relating to the construction and replacement of City sidewalks and bike paths. This fund is primarily funded through General Fund appropriations.

Tree Ordinance-This fund is used to account for the funds received under Ordinance 483 of the City which requires deposits and fees for the removal and replacement of protected species of trees.

Drug Forfeiture-This fund is used to account for the money and property seized by the Police Department from individuals involved in the use, sale and distribution of illegal drugs.

Police Grants and Donations-This fund is used to account for the revenues and expenditures related to grants and donations that the Police Department received for operation of the DARE program and other associated law enforcement grants.

Metro Act-This fund is used to account for the revenue received from the State of Michigan to be used for right-of-way maintenance.

COMBINING BALANCE SHEET-NON MAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2005

CITY OF AUBURN HILLS

	Wayne- Oakland Disposal	Retiree Health Care	Community Development Block Grant	Park Improvement
<u>ASSETS</u>				
Cash and cash equivalents.....	\$ 140,682	\$ 2,530,874	\$ -	\$ 278,053
Receivables:				
Due from other governmental units.....			45,007	
Due from other funds.....		18,747	1,775	
Accounts receivable.....	0	506		
TOTAL ASSETS	\$ 140,682	\$ 2,550,127	\$ 46,782	\$ 278,053
<u>LIABILITIES AND FUND EQUITY</u>				
<u>LIABILITIES</u>				
Accounts payable.....	\$ 2,550	\$	\$ 46,782	\$
Deposits payable.....				7,377
Due to other funds.....				
Deferred revenue.....			45,007	
TOTAL LIABILITIES	2,550	0	91,789	7,377
<u>FUND BALANCES (DEFICIT)</u>				
Fund balances (deficit)-unreserved:				
Undesignated.....	138,132	2,550,127	(45,007)	270,676
TOTAL FUND EQUITY (DEFICIT)	138,132	2,550,127	(45,007)	270,676
TOTAL LIABILITIES AND FUND EQUITY (DEFICIT)	\$ 140,682	\$ 2,550,127	\$ 46,782	\$ 278,053

EXHIBIT D-1

<u>Sidewalk Improvement</u>	<u>Tree Ordinance</u>	<u>State & Federal Drug Forfeiture</u>	<u>Police Grants and Donations</u>	<u>Metro Act</u>	<u>Total</u>
\$ 243,676	\$ 715,164	\$ 67,439	\$ 8,176	\$ 77,752	\$ 4,061,816
5,671					45,007
					26,193
					506
<u>\$ 249,347</u>	<u>\$ 715,164</u>	<u>\$ 67,439</u>	<u>\$ 8,176</u>	<u>\$ 77,752</u>	<u>\$ 4,133,522</u>
\$	\$ 36,700	\$ 24,900	\$	\$ 2,664	\$ 113,596
	211,749		2,360		221,486
					0
					45,007
0	248,449	24,900	2,360	2,664	380,089
<u>249,347</u>	<u>466,715</u>	<u>42,539</u>	<u>5,816</u>	<u>75,088</u>	<u>3,753,433</u>
<u>249,347</u>	<u>466,715</u>	<u>42,539</u>	<u>5,816</u>	<u>75,088</u>	<u>3,753,433</u>
<u>\$ 249,347</u>	<u>\$ 715,164</u>	<u>\$ 67,439</u>	<u>\$ 8,176</u>	<u>\$ 77,752</u>	<u>\$ 4,133,522</u>

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICIT)--SPECIAL REVENUE FUNDS
YEAR ENDED DECEMBER 31, 2005**

CITY OF AUBURN HILLS

	<u>Wayne- Oakland Disposal</u>	<u>Retiree Health Care</u>	<u>Community Development Block Grant</u>	<u>Park Improvement</u>
<u>REVENUE</u>				
Licenses and permits.....				
Charges for services.....		\$ 884,394		\$ 451
Federal sources.....			\$ 41,851	
State sources.....				
Use of money and property.....	\$ 23,393	49,621		2,479
Other revenues.....	1,460,775		0	
TOTAL REVENUE	1,484,168	934,015	41,851	2,930
<u>EXPENDITURES</u>				
Current operations:				
Management and planning.....	84,036	409,074		
Public safety.....				
Streets, highways, & public improvements....			80,981	13,422
Community and economic development.....				280,743
Capital outlay.....				
TOTAL EXPENDITURES	84,036	409,074	80,981	294,165
REVENUE OVER (UNDER) EXPENDITURES	1,400,132	524,941	(39,130)	(291,235)
<u>OTHER FINANCING SOURCES (USES)</u>				
General fund transfer.....				150,000
Transfers In.....		0		
Transfers Out.....	(1,382,994)			
TOTAL OTHER FINANCING SOURCES (USES)	(1,382,994)	0	0	150,000
REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	17,138	524,941	(39,130)	(141,235)
Fund balance (deficit) at beginning of year.....	120,994	2,025,186	(5,877)	411,911
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ 138,132	\$ 2,550,127	\$ (45,007)	\$ 270,676

EXHIBIT D-2

<u>Sidewalk Improvement</u>	<u>Tree Ordinance</u>	<u>Drug Forfeiture</u>	<u>Police Grants and Donations</u>	<u>Metro Act</u>	<u>Total</u>
	\$ 640				\$ 640
					884,845
					41,851
\$ 221	23,930	\$ 11,865		\$ 59,582	71,447
127,000			\$ 5,187	285	99,929
					1,592,962
127,221	24,570	\$ 11,865	\$ 5,187	59,867	2,691,674
					493,110
		1,150	16,846		17,996
251	179,552			26,885	206,688
					94,403
9,393		48,536			338,672
9,644	179,552	49,686	16,846	26,885	1,150,869
117,577	(154,982)	(37,821)	(11,659)	32,982	1,540,805
125,000					275,000
					(1,382,994)
125,000	0	0	0	0	(1,107,994)
242,577	(154,982)	(37,821)	(11,659)	32,982	432,811
6,770	621,697	80,360	17,475	42,106	3,320,622
\$ 249,347	\$ 466,715	\$ 42,539	\$ 5,816	\$ 75,088	\$ 3,753,433

COMBINING FINANCIAL STATEMENTS

CAPITAL PROJECT FUNDS

CAPITAL PROJECT FUNDS

Street Improvement-This fund is used to account for the revenues specifically designated for street improvements in the City. This fund is funded primarily through General Fund appropriation as well as the balance of bond proceeds specifically for street improvements.

Village Center Parking-This fund is used to account for the revenues and expenditures related to the construction of surface parking lots in the Village Center. The parking lot projects are financed by contributions from other City funds as well as charges to adjacent businesses that use the lots.

Storm Water Management-This fund is used to account for the revenues and expenditures relating to Storm Water Management projects in the City. This fund is funded primarily through General Fund appropriations as well as transfers from other City funds.

**COMBINING BALANCE SHEET -- CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

CITY OF AUBURN HILLS

Exhibit E-1

	<u>Street Improvement</u>	<u>Village Center Parking</u>	<u>Storm Water Management</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and cash equivalents.....	\$ 1,937,522	\$ 140,450	0	\$ 2,077,972
TOTAL ASSETS	\$ 1,937,522	\$ 140,450	\$ 0	\$ 2,077,972
<u>LIABILITIES AND FUND EQUITY (DEFICIT)</u>				
<u>LIABILITIES</u>				
Accounts payable.....	\$ 118,001	\$	\$ 89,511	\$ 207,512
Due to other funds.....			10,876	10,876
TOTAL LIABILITIES	118,001	0	100,387	218,388
<u>FUND BALANCE (DEFICIT)</u>				
Unreserved:				
Undesignated.....	1,819,521	140,450	(100,387)	1,859,584
TOTAL FUND BALANCES (DEFICIT)	1,819,521	140,450	(100,387)	1,859,584
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,937,522	\$ 140,450	\$ 0	\$ 2,077,972

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICIT) -- CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

CITY OF AUBURN HILLS

Exhibit E-2

	<u>Street Improvement</u>	<u>Village Center Parking</u>	<u>Storm Water Management</u>	<u>Total</u>
<u>REVENUE</u>				
Use of money and property.....	\$ 6,086		\$ 759	\$ 6,845
Other	163	\$ 140,450		140,613
TOTAL REVENUE	6,249	140,450	759	147,458
<u>EXPENDITURES</u>				
Streets, highways & public improvements.....	120		248,278	248,398
Capital outlay.....	427,972		255,906	683,878
Debt service:				
Principal payments.....			50,000	50,000
Interest payments.....			39,825	39,825
TOTAL EXPENDITURES	428,092	0	594,009	1,022,101
REVENUE OVER (UNDER) EXPENDITURES	(421,843)	140,450	(593,250)	(874,643)
<u>OTHER FINANCING SOURCES</u>				
General fund transfers.....	1,000,000		370,000	1,370,000
Other Transfers-in.....	1,257,994	0	125,000	1,382,994
TOTAL OTHER FINANCING SOURCES	2,257,994	0	495,000	2,752,994
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	1,836,151	140,450	(98,250)	1,878,351
Fund balances (Deficit) at beginning of year.....	(16,630)	0	(2,137)	(18,767)
FUND BALANCES (DEFICIT) AT END OF YEAR	\$ 1,819,521	\$ 140,450	\$ (100,387)	\$ 1,859,584

COMBINING
FINANCIAL STATEMENTS

INTERNAL SERVICE FUNDS

INTERNAL SERVICE FUNDS

Fleet Management-This fund is used to account for the operations of all City vehicles excluding Fire Department Apparatus

Accrued Sick and Vacation-This fund is used to account for the liability of accrued sick, vacation, and compensatory time

STATEMENT OF NET ASSETS -- INTERNAL SERVICE FUNDS
DECEMBER 31, 2005

CITY OF AUBURN HILLS

Exhibit F-1

	<u>Fleet Management</u>	<u>Accrued Sick & Vacation</u>	<u>Total</u>
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash and cash equivalents.....	\$ 1,702,489		\$ 1,702,489
Receivables:			
Due from other funds.....		\$ 1,373,175	1,373,175
TOTAL CURRENT ASSETS	1,702,489	1,373,175	3,075,664
<u>LAND, BUILDINGS AND EQUIPMENT</u>			
Machinery & equipment.....	1,018,460		1,018,460
Vehicles.....	3,210,641		3,210,641
TOTAL CAPITAL ASSETS	4,229,101	0	4,229,101
Less: Allowance for depreciation.....	3,135,689		3,135,689
TOTAL CAPITAL ASSETS NET OF DEPRECIATION	1,093,412	0	1,093,412
TOTAL ASSETS	2,795,901	1,373,175	4,169,076
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts payable.....	\$ 124,700		\$ 124,700
Due to other funds.....	30,962		30,962
Accrued payroll and other liabilities.....	6,316	1,373,175	1,379,491
TOTAL LIABILITIES	161,978	1,373,175	1,535,153
<u>NET ASSETS</u>			
Invested in capital assets.....	1,093,412		1,093,412
Undesignated.....	1,540,511		1,540,511
TOTAL NET ASSETS	\$ 2,633,923	\$ 0	\$ 2,633,923

**COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN
FUND NET ASSETS -- INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

CITY OF AUBURN HILLS

Exhibit F-2

	<u>Fleet Management</u>	<u>Accrued Sick & Vacation</u>	<u>Total</u>
<u>OPERATING REVENUE</u>			
Equipment rental charges.....	\$ 1,192,501		\$ 1,192,501
Vehicle rental fees.....	571,600		571,600
Other operating income.....		\$ 34,799	34,799
TOTAL OPERATING REVENUE	1,764,101	34,799	1,798,900
<u>OPERATING EXPENSES</u>			
Salaries and wages.....	193,492	34,408	227,900
Fringe benefits.....	135,534	391	135,925
Supplies.....	370,820		370,820
Contracted services.....	243,097		243,097
Other operating expenses.....	104,369		104,369
Depreciation and amortization.....	642,788		642,788
TOTAL OPERATING EXPENSES	1,690,100	34,799	1,724,899
TOTAL OPERATING INCOME	74,001	0	74,001
<u>NONOPERATING REVENUE</u>			
Interest earned.....	13,711		13,711
Other income.....	75,164		75,164
TOTAL NONOPERATING REVENUE	88,875	0	88,875
INCOME (LOSS) BEFORE OPERATING TRANSFERS	162,876	0	162,876
<u>OPERATING TRANSFERS</u>			
Transfers-in.....	162,820	0	162,820
TOTAL OPERATING TRANSFERS	162,820	0	162,820
CHANGE IN NET ASSETS	325,696	0	325,696
Net assets-beginning of year.....	2,308,227	0	2,308,227
NET ASSETS AT END OF YEAR	\$ 2,633,923	\$ 0	\$ 2,633,923

**COMBINING STATEMENT OF CASH FLOWS-
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

CITY OF AUBURN HILLS

Exhibit F-3

	<u>Fleet Management</u>	<u>Accured Sick & Vacation</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Cash received from customers.....	\$ 1,764,101		\$ 1,764,101
Cash payments for goods and services.....	(864,907)		(864,907)
Cash payments to employees.....	(326,377)		(326,377)
Other operating expenses.....	(104,369)		(104,369)
NET CASH PROVIDED BY OPERATING ACTIVITIES	468,448	\$ 0	468,448
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>			
Operating transfers in.....	162,820		162,820
Other nonoperating receipts.....	75,164		75,164
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	237,984	0	237,984
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Purchase of capital assets.....	(385,018)		(385,018)
NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(385,018)	0	(385,018)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Interest received on investments.....	13,711		13,711
NET CASH PROVIDED BY INVESTING ACTIVITIES	13,711	0	13,711
Net Increase in cash and cash equivalents.....	335,125		335,125
Cash and cash equivalents-Beginning of year.....	1,367,364	0	1,367,364
Cash and cash equivalents-end of year.....	<u>\$ 1,702,489</u>	<u>\$ 0</u>	<u>\$ 1,702,489</u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>			
Operating income	\$ 74,001	\$ 0	\$ 74,001
<u>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>			
Depreciation and Amortization Expense	642,788		642,788
Decrease (increase) in due from other funds		(34,799)	(34,799)
Increase (decrease) in accounts payable	(250,990)		(250,990)
Increase (decrease) in due to other funds	2,510		2,510
Increase (decrease) in accrued payroll and other liabilities	139	34,799	34,938
Total Adjustments	<u>394,447</u>	<u>0</u>	<u>394,447</u>
Net cash provided by operating activities	<u>\$ 468,448</u>	<u>\$ 0</u>	<u>\$ 468,448</u>

AGENCY FUND

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

CITY OF AUBURN HILLS

Exhibit G-1

	Balance January 1 <u>2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31 <u>2005</u>
<u>ASSETS</u>				
Cash and cash equivalents.....	\$ 12,419,537	\$ 112,302,291	\$ 104,581,097	\$ 20,140,731
Accounts receivable.....	<u>218,220</u>		<u>218,220</u>	<u>-</u>
TOTAL ASSETS	<u>12,637,757</u>	<u>112,302,291</u>	<u>104,799,317</u>	<u>20,140,731</u>
<u>LIABILITIES</u>				
Due to other governmental units.....	1,022,381		92,288	930,093
Undistributed tax collections.....	<u>11,615,376</u>	<u>107,665,815</u>	<u>100,070,553</u>	<u>19,210,638</u>
TOTAL LIABILITIES	<u>\$ 12,637,757</u>	<u>\$ 107,665,815</u>	<u>\$ 100,162,841</u>	<u>\$ 20,140,731</u>



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May 4, 2006

Honorable Mayor and Members
of the City Council
City of Auburn Hills
1827 North Squirrel Road
Auburn Hills, MI 48326

Dear Mayor and Council Members:

We recently completed the audit of the basic financial statements of the City of Auburn Hills for the year ended December 31, 2005. As a result of our audit, we have the following comments and recommendations for your review and consideration.

Bank Reconciliations

During the current year, it appears that all bank reconciliations were prepared in a timely manner. We commend the City on the improvement in this area. To further strengthen your controls in this area, we recommend that these reconciliations be initialed and dated by both the preparer and the reviewer.

Water and Sewer Billings and Receivable Subledger

As mentioned in previous years, the City is not reconciling the customer receivables subledger to the general ledger on a regular basis. This resulted in an unreconciled difference at the end of the year. It is very important for this reconciliation process to take place on a monthly basis so that any differences can be investigated and resolved in a timely fashion. This process will also help to ensure that the balance reported in the general ledger is accurate and the accounts receivable system is working properly.

State-shared Revenue

The State's fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is essentially the fiscal year 2004/2005 funding level. As in the past several years, revenue-sharing payments on an individual community-by-community basis for fiscal year 2005/2006 will be funded at approximately fiscal year 2004/2005 levels.



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Honorable Mayor and Members
of the City Council
City of Auburn Hills, Michigan

May 4, 2006

The governor's proposed 2006/2007 budget did not include any additional funding for local governments. As a result, it is expected that overall revenue-sharing payments to communities for fiscal year 2006/2007 will remain stagnant at the 2004/2005 level.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would support an increase to total State-shared revenue payments. However, for fiscal years 2004/2005, 2005/2006, and 2006/2007, the appropriation in the State's budget for revenue-sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. For those three years, revenue-sharing distributions are planned to be approximately \$1.6 billion less than amounts provided by statutory formulas. There appears to be no long-term solution to the State's structural deficit in its General Fund, and as long as this condition exists, revenue-sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

State-shared revenue accounts for approximately 13 percent of the City's total General Fund revenue for the year ended December 31, 2005. The table below details State-shared revenue for the City over the past six years, broken out by statutory and constitutional portions:

	<u>Actual FY 2001</u>	<u>Actual FY 2002</u>	<u>Actual FY 2003</u>	<u>Actual FY 2004</u>	<u>Actual FY 2005</u>	<u>Estimated FY 2006</u>
Constitutional	\$ 1,276,624	\$ 1,289,596	\$ 1,311,262	\$ 1,309,007	\$ 1,361,104	\$ 1,387,947
Statutory	<u>691,494</u>	<u>620,953</u>	<u>515,163</u>	<u>301,528</u>	<u>252,154</u>	<u>217,233</u>
Total payments	<u>\$ 1,968,118</u>	<u>\$ 1,910,549</u>	<u>\$ 1,826,425</u>	<u>\$ 1,610,535</u>	<u>\$ 1,613,258</u>	<u>\$ 1,605,180</u>
Dollar change		\$ (57,569)	\$ (84,124)	\$ (215,890)	\$ 2,723	\$ (8,078)
Percentage change		-2.93%	-4.40%	-11.82%	0.17%	-0.50%

While the City's constitutional revenue-sharing payments have been increasing slightly, the statutory piece of revenue-sharing has dropped approximately \$439,000 since 2001.

If the State were to eliminate the statutory portion of revenue-sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$217,000 at risk in its General Fund budget based on 2006 estimated funding levels. In addition, the statutory formula expires in 2007 and requires action by the Legislature. We will continue to update the City as developments occur.

The revenue-sharing act does provide that a city, village, or township with a minimum 10 percent population growth confirmed by a special census, and levying at least one mill, is eligible for an annual payment for a portion or all of the growth population. Even if the City meets these criteria, funds for the special census payment must be appropriated by the Legislature.

May 4, 2006

Retiree Health Care Funding

The Governmental Accounting Standards Board (GASB) recently issued a new standard accounting for retiree health care. As you know, the promise to provide health care to retirees is very similar to the promise to provide pension benefits. As a result, GASB has proposed changes that would result in the City having to have an on-going actuarial valuation to define the liability for its retiree health plan, and to recommend an annual contribution. That liability would need to be disclosed in the financial statements. In addition, the City's funding status, or the progress it has made in accumulating assets to pay for this liability, would also need to be disclosed. These changes are effective starting in 2007.

As you know, to date, the City has been setting aside money to fund its retiree health plan and currently has about \$2,500,000 set aside. We commend the City for the foresight to begin prefunding this liability but also caution that the annual contribution may increase once the new pronouncement is fully implemented.

Transportation Matters

The State experienced lower than anticipated Act 51 receipts for the State's 2004/2005 fiscal year which ended September 30, 2005. Plante & Moran, PLLC publishes annually forecasted Act 51 distribution rates which we receive from the State and are based on its forecast of anticipated collections at the State level. If actual collections are less than amounts forecasted by the Michigan Department of Transportation, this could likely result in revenue less than budgeted amounts in the City's Major and Local Street Funds. There is also a concern about the State's forecast for fiscal year 2005/2006. We encourage the City to be conservative in budgeting Major and Local Street Funds revenue. In addition, both of the City's Street Funds currently have deficits. The Major Street Fund's deficit is \$129,508 and the Local Street Fund's deficit is \$86,012.

In 2004, the Legislature modified Act 51 to allow local governments to transfer monies from their Major Street Fund to their Local Street Fund if a surplus existed. As a condition of the transfer, the amended law requires that certain conditions be met, including the adoption of an asset management process for the Major and Local Street systems. It is important to note that these provisions sunset December 31, 2008. Without an extension of this provision, a transfer from the Major Street Fund to the Local Street Fund can only be done to the extent that local revenues exist in the Major Street Fund. There is also currently legislation proposed that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

As part of the governor's fiscal year 2006/2007 budget proposal, a road funding program has been introduced which would provide approximately \$400 million to be used by local governments as federal match monies on local road projects. The program requires legislation before it becomes effective.

Local Government Finance Model

In 2005, the governor created a local government fiscal task force to study the financial challenges of Michigan local governments. While their report was originally due by November 30, 2005, the local government fiscal task force held its first meeting in September 2005. A report from this group is expected in 2006. Unrelated to the local government fiscal task force, Citizens Research Council is conducting a study focused on documenting the nature and extent of structural fiscal problems facing local governments and to catalogue local services and activities for local units (with the intention that local governments will use this information to study the possibility of greater collaborative efforts to optimize government resources).

Tax Matters

The governor and the Legislature spent considerable time in 2005 on business tax reform with specific focus on the Michigan single business tax. The final approved business tax reform plan appeared to spare local governments from any negative impact of the changes. A key component to this plan is a significant credit on personal property taxes paid by certain businesses. Many questions have arisen from these proposals such as who determines the property that qualifies for credit, how will local governments be reimbursed by the State for the lost tax revenue as is the stated intention, etc. Currently, the plan as passed provides for a personal property tax credit for certain businesses on their Michigan single business tax return. After the approval of these changes, new discussion and debate are ongoing regarding the complete repeal of the Michigan single business tax. While single business tax is not the source of revenue-sharing payments to local governments, the repeal of the single business tax without replacement revenue or a corresponding reduction in State spending may impact the State's ability to fund statutory revenue-sharing.

Municipal Finance Act Revisions - Reminder

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a preapproval for future debt issues. The current filing is due within six months of the City's year end (June 30, 2006) and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.

Honorable Mayor and Members
of the City Council
City of Auburn Hills, Michigan

May 4, 2006

We would like to thank the City for the continued opportunity to serve as your auditors. The audit process this year was much improved from the previous year. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC

Beth A. Bialy

A handwritten signature in black ink that reads "Beth Bialy". The script is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Carolyn L. Lorenz

A handwritten signature in black ink that reads "Carolyn Lorenz". The script is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.